Ministry of Innovation and Science

Annual Report

2002 – 2003

Ministry of Innovation and Science
  Department of Innovation and Science
  Alberta Science and Research Authority (ASRA)
    Alberta Research Council Inc.
    iCORE (Alberta Informatics Circle of Research Excellence) Inc.
Alberta Heritage Foundation for Medical Research
  Alberta Foundation for Health Research
Alberta Heritage Foundation for Science and Engineering Research *(operating under the trade name, Alberta Ingenuity Fund)*

Alberta
INNOVATION AND SCIENCE

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Public Accounts 2002 – 2003

Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 Ministries.

The annual report of the Government of Alberta released June 24, 2003 contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the *Measuring Up* report.

This annual report of the Ministry of Innovation and Science contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This Ministry annual report also includes:

- **the financial statements of entities making up the Ministry including the Department of Innovation and Science and provincial agencies for which the Minister is responsible, and**
- **other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report.**

Minister's Accountability Statement

The Ministry's Annual Report for the year ended March 31, 2003, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at September 16, 2003 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

Hon. Victor Doerksen, F.C.G.A.
Minister of Innovation and Science

Message from the Minister

Alberta Innovation and Science continues to help diversify and strengthen the Alberta economy as it works to advance the province's research and innovation agenda.

This past year, the ministry has worked closely with its partners to develop a unified provincial focus in three strategic areas: life sciences, information and communications technology, and energy research. We've worked to build a critical mass of research excellence that is helping to create an environment that attracts skilled people and investment to the province, and is a foundation for business growth, job creation, a sustainable economy and a better quality of life for Albertans.

The Alberta Science and Research Authority (ASRA) continues to be a valuable resource for the province, providing solid research and technology development advice. The hard-working members of the ASRA board represent some of the best and brightest of Alberta's science and business communities, and are helping set the future direction for Alberta.

ASRA's strategic advice resulted in the approval of two important strategies by the Government of Alberta in 2002 – 03. Under the guidance of ASRA, the Alberta Energy Research Institute released the *Alberta Energy Research Strategy*. This research plan provides long-term direction for Alberta's energy industry and will also be a cornerstone of Alberta's approach to addressing climate change and reducing emissions.

Another strategy developed in conjunction with ASRA is *Growing Our Future: An Integrated Life Sciences Strategy for Alberta*. It outlines how Alberta can create a broader, more diversified economy and build on the research and innovation happening in important sectors, such as agriculture, energy, environment, forestry and health.

These strategies, combined with the work being done by various research organizations throughout the province, continue to create new opportunities for Alberta. Through the work of organizations like the Alberta Heritage Foundation for Medical Research, Alberta Ingenuity Fund and iCORE Inc., the province is attracting some of the world's best and brightest researchers and graduate students. Groups like the Alberta Agricultural Research Institute, the Alberta Energy Research Institute, the Alberta Forestry Research Institute and the Alberta Research Council Inc. are also focused on the future and are looking for opportunities to diversify the economy.

Even more activities are helping to create opportunities and diversify the economy. The Alberta SuperNet initiative continues to draw positive attention from jurisdictions around the globe and is on track for completion in late 2004. Technology missions to California, Belgium and Finland solidify our commitment to furthering the province's expertise in the high-tech sector. Initiatives like the Alberta Innovation Series exemplify our desire to help Alberta companies commercialize technology and take their innovations to the market place. We continue to move our information and technology management strategy forward in order to increase access to government services and to provide innovation and electronic delivery of those services to Albertans through such technologies as Alberta SuperNet.

This is just a brief glimpse at some of the activities that support the Government of Alberta's vision for the province. Alberta has a strong research community and a world-class reputation for excellence thanks to the province's long-term support of this important community. We will continue to focus on research and innovation to ensure a sustainable and prosperous future for generations of Albertans to come. A world of opportunity exists for Alberta, and I look forward to the road that lies ahead.

Victor Doerksen, F.C.G.A.
Minister of Innovation and Science

Management's Responsibility for Reporting

The Ministry of Innovation and Science includes:

Department of Innovation and Science
Alberta Science and Research Authority and its wholly owned subsidiaries
  Alberta Research Council Inc. and
  iCORE Inc.

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Innovation and Science. Under the direction of the Minister, I oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

As Deputy Minister, in addition to program responsibilities, I establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control, which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money,
- provide information to manage and report on performance,
- safeguard the assets and properties of the Province under Ministry administration,
- provide Executive Council, Treasury Board, the Minister of Finance and the Minister of Innovation and Science any information needed to fulfill their responsibilities, and
- facilitate preparation of Ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling my responsibilities for the Ministry, I have relied, as necessary, on the executive of the individual entities within the Ministry.

D H Bader

Dan Bader, P.Eng.
Deputy Minister
Ministry of Innovation and Science
September 16, 2003

Overview

Our Core Businesses

1. *Research and Development: To enhance the contribution of science, research, development and commercialization to the sustainable prosperity and quality of life of all Albertans.*

Innovation is the process by which economic value is extracted from knowledge through generating, developing and implementing ideas to produce new or improved products, processes and services, and is crucial for establishing a competitive advantage in the global knowledge-intensive economy. Research is the key to developing new ideas and discoveries that can lead to innovation. These ideas and discoveries are then translated into new and improved products, processes or services in the marketplace.

Building a critical mass of research excellence also creates an environment that attracts skilled people and investment to our province. This provides a foundation for business growth, job creation, a sustainable economy and a better quality of life for Albertans.

2. *Corporate Information and Communications Technology (ICT): To provide strategic leadership and direction in the innovative and cost-effective use of ICT to improve the efficiency of government program delivery and administration.*

ICT is an essential tool for delivering government programs and services to Albertans and in the daily administration of government operations. The Alberta government makes significant investments in ICT systems to ensure that Albertans can access government programs and services on-line, any time, anywhere in Alberta. Meeting these expectations cost effectively requires a high degree of collaboration as well as the seamless sharing of information between ministries, while ensuring that Albertans' concerns for privacy and security are respected. The Ministry of Innovation and Science is responding to these needs in two ways.

First, Alberta SuperNet will make affordable, high-speed broadband access available to all schools, libraries, hospitals, provincial government buildings, and municipalities in 422 communities in Alberta. This network will be the foundation for electronic delivery of government programs and services throughout the province. SuperNet will also facilitate the provision of high-speed Internet access to businesses and Albertans through independent Internet service providers accessing services from the SuperNet infrastructure.

Second, Innovation and Science also continues to provide corporate leadership and to work closely with all government departments to ensure that investments in technology are aligned to cost-effectively enhance the delivery of services to Albertans. Government business priorities are moving to reflect a commitment to transform its business through common cross government standards, shared common infrastructure and common e-business processes.

Highlights — Performance Measures

- Alberta's research system has further strengthened as demonstrated by an increase of 18% in sponsored research at Alberta universities. The most notable increase is from Provincial and Federal Government sources.
- The Alberta Energy Research Institute invested in an additional fuel cell research project in 2002 – 03, resulting in a total of three fuel cell research projects supported at the University of Alberta and the University of Calgary.
- Information and Communications Technology (ICT) research in Alberta is further strengthened through the efforts of iCORE Inc. as they have attracted and retained three Research Chairs and Professors to Alberta universities in 2002 – 03.
- The number of knowledge workers in Alberta's information and communications technology (ICT) sector[2] has been growing over the long-term.
- Innovation and Science facilitated the development of international collaboration and innovation networks by establishing two international innovation-related agreements for Alberta in 2002 – 03.
- Construction of Alberta SuperNet is projected to be completed in 2004 as planned. With the SuperNet infrastructure in place, there will be greater electronic access to government programs and services for Albertans in 422 communities through the Service Alberta website.
- ICT systems and information sharing within the Government of Alberta (GOA) are more efficient and aligned with corporate standards than ever before, as 87% of GOA desktops have been converted to the Windows 2000/Office 2000 standard in 2002 – 03.
- Innovation and Science received a Silver Premier's Award of Excellence for the Government of Alberta Enterprise Architecture Foundation Project.
- Innovation and Science received a second Silver Premier's Award of Excellence for its participation in BIO 2002, the world's largest annual biotechnology gathering.
- Innovation and Science also received a Bronze Premier's Award of Excellence for Science and Technology Week.
- Innovation and Science provided support for the establishment of the Banff International Research Station, a collaborative Canada-U.S. venture to operate an international centre for mathematical innovation and discovery.

Highlights — Financial Performance

Spending was within approved targets and directed to the Ministry's core businesses. Expenses for the Ministry of Innovation and Science totaled $201 million for 2003. Significant programs within the ministry of Innovation and Science include:

$137.6 million for Science, Research and Development, consisting of:

- $61.9 million for the Alberta Research Council Inc.
- $38.1 million for university research
- $10.1 million for iCORE (Alberta Informatics Circle of Research Excellence) Inc.
- $9.1 million for the Alberta Agricultural Research Institute
- $6.9 million for the Alberta Energy Research Institute
- $3.5 million for Technology Commercialization Initiatives
- $1.8 million for the Alberta Forestry Research Institute
- $6.2 million for program delivery support

$59.2 million for Government Information Technology, consisting of:

- $23.6 million for the delivery of cross-government telecommunications services
- $16.8 million for the delivery of cross-government information technology services
- $13.8 million for the delivery of cross-government financial and human resource applications (IMAGIS)
- $3.0 million in community involvement and transition costs for Alberta SuperNet
- $2.0 million for the Office of the Chief Information Officer

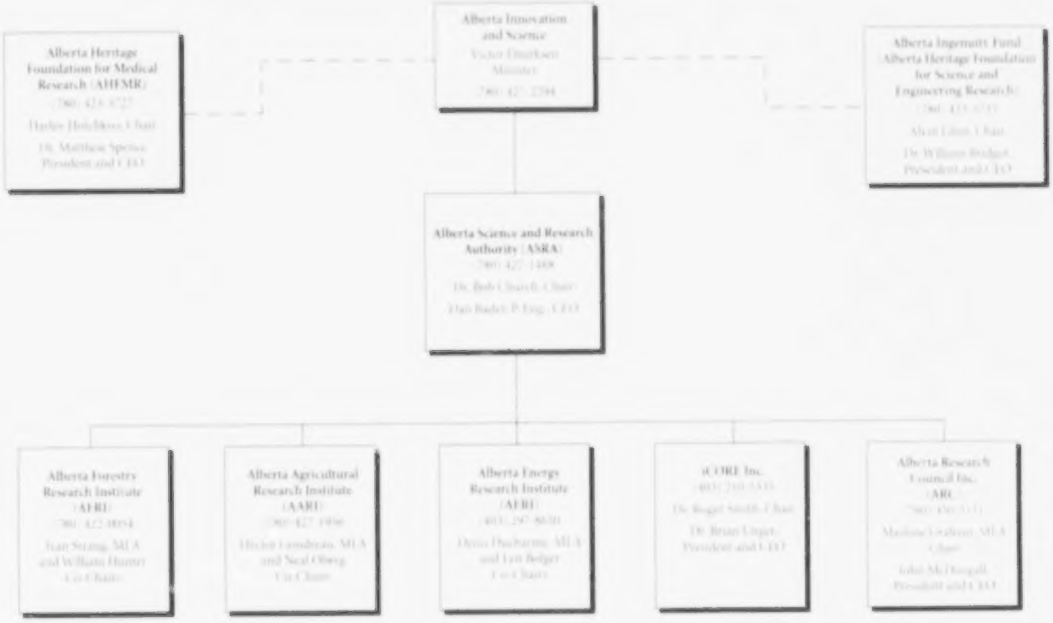
$4.2 million for Ministry Support Services including Minister's Office, Deputy Minister's Office, Policy Development and Coordination, Finance, Human Resources and Communications.

Capital investment for the Ministry of Innovation and Science totaled $90.3 million for 2003 as follows:

- $85.4 million for the Alberta SuperNet Initiative
- $2.7 million for Information and Communications Technology (e.g., computer hardware and software, telecommunications equipment)
- $2.2 million for the Alberta Research Council Inc. (e.g., research equipment)

Operational Overview

Chart 1: Key Boards and Agencies


Alberta Innovation and Science
Victor Doerksen Minister
Alberta Heritage Foundation for Medical Research (AHFMR)
Harley Hotchkiss Chair
Dr. Matthew Spence President and CEO
Alberta Ingenuity Fund (Alberta Heritage Foundation for Science and Engineering Research)
Dr. William Bridger President and CEO
Alberta Science and Research Authority (ASRA)
Dr. Bob Church Chair
Alberta Forestry Research Institute (AFRI)
Ivan Strang, MLA and William Hunter Co-Chairs
Alberta Agricultural Research Institute (AARI)
Hector Goudreau, MLA and Neal Oberg Co-Chairs
Alberta Energy Research Institute (AERI)
Denis Ducharme, MLA and Len Bolger Co-Chairs
iCORE Inc.
Dr. Roger Smith Chair
Dr. Brian Unger, President and CEO
Alberta Research Council Inc. (ARC)
Chair
John McDougall, President and CEO

Overview of key boards and agencies:

Alberta Science and Research Authority (ASRA)

Alberta Science and Research Authority (ASRA) is an independent board of members from Alberta's academic, business and research communities, appointed by provincial Cabinet. ASRA's mission is to enhance the contribution of science and research to the sustainable prosperity and quality of life of all Albertans. In order to fulfill this mission, ASRA functions as the senior science and research body of the Government of Alberta.

ASRA includes:

- Alberta Agricultural Research Institute
- Alberta Energy Research Institute
- Alberta Forestry Research Institute
- Alberta Research Council Inc.
- iCORE (Alberta Informatics Circle of Research Excellence) Inc.

Alberta Agricultural Research Institute

The Alberta Agricultural Research Institute (AARI) is an unincorporated board comprised of representatives from industry, academia and government, which is the primary agency for funding, facilitating and coordinating strategic agricultural research for the province.

Alberta Energy Research Institute

The Alberta Energy Research Institute (AERI) is an unincorporated board comprised of representatives from industry, academia and government which provides strategic direction to position Alberta for the future in energy development, and invests in research and technology to enhance the sustainable development of the province's abundant energy resources.

Alberta Forestry Research Institute

The developing research institute under the ASRA banner, the Alberta Forestry Research Institute (AFRI) will encourage and support private and public investment in the economic, environmental, ecological and community sustainability of Alberta's forestry sector.

Alberta Research Council Inc.

Alberta Research Council Inc. (ARC) is a wholly-owned subsidiary of ASRA. ARC is governed by a Board of Directors, including representatives from the business and research communities in Alberta. ARC develops and commercializes technologies to give clients a competitive advantage. A Canadian leader in innovation, ARC provides solutions globally to the energy, life sciences, agriculture, environment, forestry and manufacturing sectors.

iCORE Inc.

iCORE (Alberta Informatics Circle of Research Excellence) Inc. is a not-for-profit corporation and a wholly-owned subsidiary of ASRA. iCORE is part of the Government of Alberta's strategy to transform brain drain into brain gain by attracting world-class information and communications technology (ICT) researchers to the province. In this way, it is able to enhance the work of teams already here and will place Alberta in the major leagues of ICT. iCORE invests in people who are driven by solving fundamental and applied problems in information technology. In doing so, it creates a critical mass of research leaders focused on improving our future.

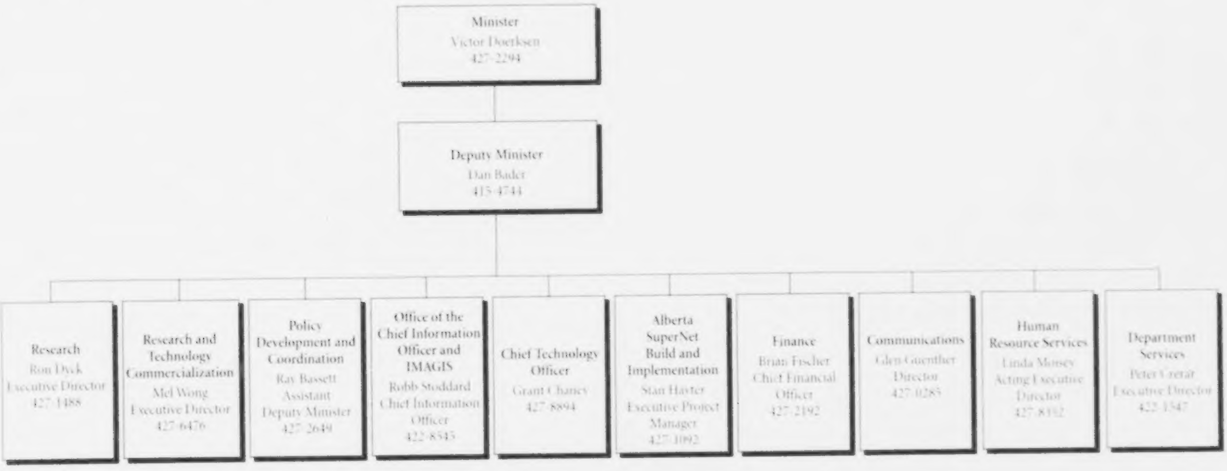
Alberta Heritage Foundation for Medical Research

Established by the Government of Alberta in 1980, the Alberta Heritage Foundation for Medical Research (AHFMR) supports biomedical and health research at Alberta universities, affiliated institutions, and other medical and technology-related institutions. AHFMR is an independent body at arms-length from the Government, but accountable to it, reporting through the Minister of Alberta Innovation and Science.

Alberta Heritage Foundation for Science and Engineering Research

Operating under the trade name of '*Alberta Ingenuity Fund*', the Alberta Heritage Foundation for Science and Engineering Research is an independent body at arms-length from the Government, but accountable to it, reporting through the Minister of Alberta Innovation and Science. Alberta Ingenuity nurtures the discovery of new knowledge and encourages its application to benefit Albertans by supporting a balanced, long-term program of science and engineering research based in Alberta.

Chart 2: Department of Innovation and Science


Minister
Victor Doerksen
427-2294
Deputy Minister
Dan Bader
415-4744
Research
Ron Dyck
Executive Director
427-1488
Research and Technology Commercialization
Mel Wong
Executive Director
427-6476
Policy Development and Coordination
Ray Bassett
Assistant Deputy Minister
427-2649
Office of the Chief Information Officer and IMAGIS
Robb Stoddard
Chief Information Officer
422-8545
Chief Technology Officer
Grant Chaney
427-8894
Alberta SuperNet Build and Implementation
Stan Hayter
Executive Project Manager
427-1092
Finance
Brian Fischer
Chief Financial Officer
427-2192
Communications
Glen Guenther
Director
427-0285
Human Resource Services
Linda Mosey
Acting Executive Director
427-8352
Department Services
Peter Crerar
Executive Director
422-1547

Overview of Department of Innovation and Science:

Deputy Minister

The Deputy Minister provides leadership to the department and advises the Minister on developing and managing strategic plans for research and development in areas of importance to Alberta, coordination of government science and research, promoting science culture in Alberta and effective use of technology throughout the government. The Deputy Minister also serves as the Chief Executive Officer of ASRA.

Research

The Research Division works with ASRA, AARI, AERI and AFRI to coordinate, support and promote research and development and technology transfer in energy and life sciences (e.g., agriculture, forestry, health). The services provided by the Research Division are divided into the following branches:

- Energy Research and Development
- Forestry Research and Development
- Agriculture Research and Development
- Life Sciences

Research and Technology Commercialization

Research and Technology Commercialization is responsible for high-tech research and development policy advice as well as the development of business opportunities in ICT, biotechnology and pharmaceutical research. The division works to increase the knowledge industry in Alberta by growing, attracting and retaining firms specializing in industries such as electronics, microelectronics, nanotechnology, telecommunications and information networks, computer technology including hardware and software, multimedia, advanced materials and manufacturing, biotechnology and pharmaceuticals. This unit also facilitates new product development and increased technology commercialization opportunities across all knowledge-based sectors.

Policy Development and Coordination

Policy Development and Coordination provides policy planning and reporting with a long-term outlook, evaluates, and monitors performance measures, and addresses legislation and regulatory issues facing the ministry. This division also includes the University Research and Strategic Investments branch which, administers the Alberta Science and Research Investments Program (ASRIP) and the funding of selected Strategic Research Initiatives (SRI) approved by the ASRA board.

Office of the Chief Information Officer (CIO) and IMAGIS

The Office of the CIO develops and implements cross-government ICT initiatives to provide corporate leadership and to ensure that the Government of Alberta is exemplary in the efficient and effective use of information and communications technology in providing services to Albertans. The Office of the CIO is divided into the following branches:

- Office of the Chief Information Officer
- Architecture and Technology Infrastructure
- Corporate Development
- IMAGIS

Chief Technology Officer (CTO)

The CTO develops and implements cross-government information technology and telecommunications initiatives. The services are divided as follows:

- Stakeholder Relations/Network Infrastructure
- SuperNet Technology
- SuperNet Operations
- Community Involvement
- Project Management Office
- Service Alberta

SuperNet Build and Implementation

SuperNet Build and Implementation is responsible for overseeing all aspects of the construction of Alberta SuperNet in 422 communities across the province. This group tracks the progress of the build and manages technical and financial issues related to the construction and implementation of the network.

Finance

Finance provides strategic financial services to the ministry including financial policy analysis and advice, financial statement reporting, fiscal planning, and budget monitoring and forecasting. Finance liaises with the Auditor General's Office and Alberta Finance and is responsible for coordinating the provision of transactional services within Innovation and Science by the Alberta Corporate Service Centre. Finance also provides support and financial information and advice to the boards and provincial corporations reporting through Innovation and Science.

Communications

Communications provides timely, high-quality strategic communications support and advice (planning, consulting and technical guidance) to the Minister, Deputy Minister, management committee and ministry staff for key ministry policies and initiatives. Communications ensures the ministry's messages and services are delivered to Albertans and stakeholders effectively and efficiently.

Human Resource Services

Human Resource Services implements strategies to ensure that employees know and understand how their work contributes to ministry business plan goals and that employees receive ongoing feedback on their individual performance. Other priorities include: continuous learning based on individual learning plans and the evolving needs of the department, leadership development, leadership continuity, and attracting and retaining employees who are recognized for their leadership, teamwork and innovative practices.

Department Services

The Department Services division includes the Department Chief Information Officer and Department Facilities Management branches.

Department Chief Information Officer (CIO)

The Department CIO sets the direction for applying information technology strategically to current and emerging business needs within the department to enable program solutions, improve administrative processes and enhance communications. The CIO is also responsible for leading Innovation and Science projects aimed at improving efficiency within the department and in prototyping possible cross government applications.

Department Facilities Management

The Department Facilities Management branch is responsible for the physical infrastructure of the department. That is, this branch manages all accommodations, space planning, capital projects, and physical building security pertaining to the department of Innovation and Science. Further, this branch is responsible for coordinating the provision of transactional services with the department by the Alberta Corporate Service Centre.

Summary of Key Activities in the Past Year

Goal 1: To enhance the quality and capacity of Alberta's research system in areas of strategic importance, with an emphasis on building capability to support research in energy, information and communications technology (ICT) and life sciences.

- Public awareness of science and innovation in Alberta is mounting with such initiatives as the award-winning Science and Technology Week 2002 campaign; the publicly acclaimed Alberta Innovation 2002 television documentary; and the prestigious Alberta Science and Technology (ASTech) Leadership Awards.
- Alberta's support for its three identified priority research areas (energy, ICT and life sciences) was strengthened with an investment made by the Ministry of approximately $50 million towards 37 research projects in the three areas including research infrastructure for top research teams.
- A new partnership between Alberta and international innovators has been formed as the Ministry facilitated a joint energy research project between the Alberta Research Council Inc. (ARC) and the Singapore National Technology University and coordinated an Alberta Mission to China in furtherance of the Memorandum of Understanding (MOU) on science and technology to identify and develop joint projects in the fields of ICT, Energy, Environmental Technologies, and academic research and cooperation.
- Alberta's innovative efforts have been awarded as C-FER Technologies Inc. (subsidiary of ARC) researchers received the Distinguished Researcher Award in September 2002 from the Pipeline Research Council International Inc., for developing new design methods to improve pipeline safety.

Goal 2: To increase energy research intensity that contributes to Alberta's continued prosperity.

- The Alberta Energy Research Strategy formed the *Technology and Innovation* portion of Alberta's Climate Change Action Plan.
- Future priorities and direction for Alberta research in hydrocarbons is now clearer with the formation of the Cleaner Hydrocarbon Technology Futures Group initiated by AERI.
- For the purposes of coordinating research efforts, AERI initiated a national discussion on energy research in Canada, which brought together 50 of the leading energy research minds in the country.
- Alberta is furthering it's support for research aimed at significantly reducing greenhouse gases (by 80% relative to existing technologies) as AERI, along with other partners, are investing $30 million over 10 years in the DOVAP/VAPEX pilot project to field test a heavy oil recovery process.

Goal 3: To foster excellence in information and communications technology (ICT) research that contributes to Alberta's continued prosperity.

- The new *Centre of Excellence in Integrated Nanotools* located at the University of Alberta was announced, positioning Alberta as a world leader in the development of nanotechnology and providing researchers with a nanotechnology design infrastructure to develop microchips, microsystems, and nanodevices.
- The Ministry continues its investment in top innovative people as iCORE Inc. awarded $2.15 million to Canada's best graduate students in ICT related disciplines, thus either attracting them to, or retaining them at Alberta universities. Further, Alberta's universities attracted 24% of Canada's top NSERC (Natural Sciences and Engineering Research Council of Canada) postgraduate scholarship awards in Computer Science and Electrical and Computer Engineering.

Goal 4: To foster excellence in life sciences research that contributes to Alberta's continued prosperity.

- A strategy for Life Sciences Research in Alberta has been developed and approved by government. This strategy will provide a framework to support future developments in agriculture, health, forestry and environment. The strategy is in its early stages of implementation.
- AARI, along with Alberta Agriculture, Food and Rural Development and other partners, developed a strategic framework for Agricultural Research and Innovation in Alberta. This will serve to align research in the province that contributes to a more technologically advanced and sustainable agriculture and food sector.
- In collaboration with BioAlberta, the Ministry established *BioProducts Alberta*, a strategic research network to provide direction and advocacy for Alberta's growing bio-products industry. *BioProducts Alberta* is an important component of the province's life sciences strategy, providing strategic input to research directions within the area of bio-products.
- A breakthrough in health research was made at the Alberta Research Council Inc., as the Nutraceutical and Pharmaceutical Chemistry (NuRx) division received a patent on a process for manufacturing glucosamine hydrochloride, a therapeutic product aimed at joint and bone health.

Goal 5: To foster greater prosperity in Alberta from the commercialization of research in information and communications technology (ICT), life sciences and other areas of strategic importance.

- Facilitated the establishment of four new business partnerships and networks between industry, researchers and government. The partnerships include: 1. TR*Labs* and Samsung; 2. TR*Labs* and Mobile Forum of Finland; the Banff New Media Institute and Finland's POEM organization; 3. Alberta Innovation and Science and Technopolis Plc of Finland; and 4. the Government of Alberta and the Brussels Capital Region.
- Brought top North American investors to Alberta by facilitating the first-ever Alberta Innovation and Investment Week.
- Helped to bring support to the Alberta e-learning and broadcast initiative by facilitating a total of $1.5 million in investments from TELUS Ventures.

Goal 6: To attract, grow, establish, and retain information and communications technology (ICT) and life sciences businesses in Alberta.

- Assisted in the creation of the Phothena Optics Corporation in Alberta, which develops technologies to deliver fiber to homes economically.
- Through a joint effort with Alberta Economic Development, the Ministry attracted two key Korean photonic scientists working in Silicon Valley to Alberta through the Alberta Provincial Nominee Program.
- Innovation and Science was successful in bringing 11 investors from Silicon Valley and Los Angeles to the Banff Venture Forum, resulting in three investment deals, and an angel investment seed fund.
- Assisted Alberta companies in the adoption, commercialization and marketing of promising new technologies by facilitating the launch of *The Innovation Series*, a series of technology based seminars offered to industry on an ongoing basis.
- Heightened awareness of the Alberta Advantage in California by meeting with and informing expatriate Albertans in Silicon Valley of high technology business opportunities available in Alberta.
- Facilitated the creation of the newly-formed ProWellness Canada Ltd., which offers new technology for chronic disease management and patient care by establishing a joint venture with Finnish Company, ProWellness Ltd. and ARC.

Goal 7: To strengthen the Alberta Advantage by maximizing the opportunities presented by a province-wide high-speed information and communications technology (ICT) capability through Alberta SuperNet.

- Construction of Alberta SuperNet continues, and Prime Contractor Bell West Inc. remains committed to its completion in 2004. In 2002 – 03, 46 stakeholders in Segment 7 (Rocky Mountain House; Benalto; Condor; Eckville; Leslieville; Sylvan Lake and Red Deer) had fibre available to them for connection to Alberta SuperNet, and 16 were fully operational and connected to Alberta SuperNet. Additional agreements to acquire several thousand kilometers of fibre optic cable for use in the urban and rural areas of the network were negotiated.
- To ensure the full benefits of Alberta SuperNet are realized in 422 communities across the province, working groups have been established with other ministries and Alberta libraries to support SuperNet implementation and provide opportunities for community businesses, residents and municipal officials.
- The Ministry continues to explore opportunities to promote Alberta SuperNet as an economic advantage to Alberta, particularly when meeting with organizations interested in establishing a presence in Alberta.
- Showcased the e-learning advantages of SuperNet by launching the Learning Live Pilot Project in Segment 7 using the SuperNet infrastructure.
- Set the parameters for service providers to access Alberta SuperNet by releasing the commercial pricing model in conjunction with Axia SuperNet Ltd.

Goal 8: To be recognized internationally as a leader in the innovative and cost-effective use of information and communications technology (ICT) in the delivery of government programs and cost effective government administration.

- Electronic documents now have the same legal status as paper documents with the proclamation of the *Electronic Transactions Act.*
- Working cooperatively with other departments, the Ministry continues to transform and restructure the way the GOA does business. With the completion of the Government of Alberta Enterprise Architecture (GAEA) Foundation Project, the government can move forward with its ICT Initiative using the designs and guidance created by the Project. These designs and guidance address the areas of application development and support, common e-business processes, shared common infrastructure and common standards. These important changes will greatly enhance how Albertans experience the delivery of services and information now and in the future.
- The Office of the Chief Information Officer established the Priority Setting Task Force that will develop a framework to determine the priority of ICT projects.
- Work continues towards development of the Corporate Security Policy and setting baseline security standards for departments and the Alberta Corporate Service Centre. Corporate ICT Privacy Framework and Privacy Impact Assessment Policies are also under development.

Involvement in Government of Alberta Cross Ministry Initiatives

In 2002 – 03, the Ministry of Innovation and Science led, and participated in, a number of cross ministry policy and administrative initiatives including:

Cross Government Information and Communications Technology (ICT) Initiative

- Co-Champion of Corporate Information Management/Information Technology Cross Government key administrative initiative with Alberta Government Services.
- Developed a preliminary ICT Service Coordinator Initiative that will drive efficiencies and cost reduction through the implementation of a consolidated infrastructure and coordinated applications support through a private sector service provider.
- Through IMAGIS, Innovation and Science has acquired portal software, which will be adopted as a government standard.
- Developed a Project Management template to assist ministries in the management of ICT projects.
- Supported Alberta Infrastructure with the development of a Business Case template.
- GAEA project was completed on time and on budget. GAEA provides a framework for development of a cross government ICT infrastructure, common business process, and a mechanism for establishing priorities for ICT investments.
- Co-sponsored a GOA Authentication and Authorization initiative with Alberta Health and Wellness to develop a corporate standard and service available for all ministries requiring user authentication. This service is critical to Alberta Health and Wellness for delivering we//net applications such as the Physician Office System.
- Key participant in Alberta Children's Services initiative to reengineer business processes relating to daycare subsidies using ICT.

Economic Development Strategy

- Worked with other departments and stakeholders to develop the Energy Research Strategy; the Life Sciences Strategy; the Technology Commercialization Strategy; as well as, commenced the update of the ASRA Strategic Plan.
- Worked closely with Alberta Economic Development and provided substantial input into the development of a Value-Added Strategy for Alberta.

Alberta Corporate Service Centre Initiative

- Provided leadership for the ICT component of Alberta Corporate Service Centre initiative, reporting to the ACSC DM Steering Committee.
- ICT Service Coordinator model has been developed and endorsed by ACSC DM Steering Committee and supported for detailed assessment by the Deputy Minster's Committee.

Service Alberta Initiative

- 30 government programs/services provided to Albertans through the Service Alberta initiative are SuperNet-ready.
- Corporate ICT Business Planning Template requested input on potential services, which could be enabled via Service Alberta.
- Innovation and Science provided $600,000 in funding to the Service Alberta initiative, as well as a project manager.

AUDITOR
GENERAL
Alberta

Report of the Auditor General on the Results of Applying Specified Auditing Procedures to Performance Information

To the Members of the Legislative Assembly

I have performed the following procedures in connection with the Ministry of Innovation and Science's key performance measures and indicators included in the *2002 – 2003 Annual Report of the Ministry of Innovation and Science.*

Key measures

1. Agreed information from an external organization to reports from the organization, or where information is reported as not available, confirmed that the information is not available.
2. Agreed information from reports that originated from organizations included in the consolidated financial statements of the Ministry to source reports. In addition, I tested the procedures used to compile the underlying data into the source reports.
3. Checked that the presentation of results is consistent with the stated methodology.
4. Checked that the results presented are comparable to stated targets, and information presented in prior years.
5. Checked that the key measures, as well as targets, agree to and include results for all of the measures presented in Budget 2002.

Indicators

6. Agreed the information to source reports. In addition, I checked that the supporting narrative is consistent with the information.

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit and therefore I express no opinion on the performance information included in the *2002 – 2003 Annual Report of the Ministry of Innovation and Science.*

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
August 15, 2003

Results Analysis

Goals, Performance Measures, and Indicators

Within it's two core businesses, the Alberta Innovation and Science 2002 – 05 Business Plan identifies goals, outcomes, strategies, key performance measures, and indicators[1]. This section of the annual report outlines the goals the ministry intended to achieve, and outlines what measures were used to assess the ministry's performance, why those measures were used, and a discussion of the results.

Core Business I: Research and Development

Goal 1: To enhance the quality and capacity of Alberta's research system in areas of strategic importance, with an emphasis on building capability to support research in energy, information and communications technology (ICT) and life sciences.

KPM 1: The Ability of Alberta Universities to Attract Sponsored Research[1] Funding

($ millions)	**1998 – 99 Actual**	**1999 – 00 Actual**	**2000 – 01 Actual**	**2001 – 02 Actual**	**2004 – 05 Target**
Federal Government	86	119	132	190	176
Industry	45	43	60	51	86
Non-Profit & Other*	35	46	59	70	61
Sub-Total	**166**	**208**	**251**	**311**	**323**
Provincial Government**	65	92	119	126	110
Total	**231**	**300**	**370**	**437**	**433**

Source: Research Funding at Alberta Universities 2001 – 2002 Report, November 2002. Prepared by the University Research and Strategic Investments Branch of Alberta Innovation and Science.

*Includes other governments which includes foreign or local government sponsorship.

**Includes AHFMR, Alberta Ingenuity Fund, ASRA, Innovation and Science, and other Government of Alberta ministries.

Discussion of Results:

Total sponsored research increased by 18% from 2000 – 01 to 2001 – 02, exceeding the stretch target set for 2004 – 05.

This result reflects the impact of increased provincial investments to build research excellence by investing in people, facilities and equipment. This result also reflects increased leverage of funding from other sources.

The ability of universities to attract research funding is an indicator of the quality of the university's faculty and research programs. The more sponsorship these institutions can draw, the better able they are to attract and retain world-class researchers. These researchers in turn, attract top graduate students, further strengthening the workforce supporting Alberta's innovative capacity. Since 1998 – 99, total sponsored research at Alberta universities has increased by 89%. In addition to reflecting the high quality faculty and research programs at Alberta universities, this increase in funding reflects the introduction of new programs and expansion of existing programs at both the federal and provincial levels aimed at strategically investing in university research.

The Government of Alberta is committed to supporting research at Alberta universities. Since 1998 – 99, provincial investment has increased by 94%. Further, by supporting organizations such as iCORE, Alberta Heritage Foundation for Medical Research and the Alberta Ingenuity Fund, the Government is working to attract and retain top-level research teams at Alberta universities.

The level of private sponsorship to university research and development is to some extent a reflection of the relevance and value that industry places on university research. The importance of industry-university collaboration in this regard cannot be overstated. Such targeted and collaborative research efforts result in new products, processes and services, and long-term economic growth. The total level of funding provided by this source decreased between 2000 – 01 and 2001 – 02 by $8.8 million.

Goal 2: To increase energy research intensity that contributes to Alberta's continued prosperity.

KPM 1: Number of new technologies in Alberta at the demonstration stage for clean burning coal and other feedstocks[5].

2001 – 02 Baseline	0 Technologies
2002 – 03 Actual	0 Technologies
2010 Target	2 Technologies

Source: Canadian Clean Power Coalition.

Note: This Key Performance Measure is not continued in the 2003 – 06 Business Plan due to its long term focus. The results of this measure will remain unchanged from year to year as technologies are developed, a process that can take up to 10 years.

Discussion of Results:

Some progress has been made toward the 2010 target through AERI's support of a project which aims to create the first clean burning, coal-fired power plant demonstration facility.

Approximately 70%[6] of Alberta's electricity is generated by coal-fired plants. In view of the climate change challenges, in order to maintain the sustainability and prosperity of its power generation industry, Alberta must invest in the development of clean-burning coal technology by supporting research and development.

In 2002, AERI provided $500,000 to the Canadian Clean Power Coalition (CCPC), whose target is to have the first clean burning coal-fired power plant demonstration facility built by 2007. AERI plans to continue to support the CCPC as it proceeds with this project. A feasibility study has been completed and the design phase is being initiated. The target set for this measure looks further into the future than for most other measures in this report, as the time lag from concept to production for a novel clean coal technology is approximately 5 to 7 years[7].

Ethane is the main feedstock of the petrochemical industry in Alberta. As ethane production begins to decline, other feedstocks will be required in order to sustain this industry. In 2002 – 03 a feasibility study was conducted on petrochemical feedstocks from bitumen[8]. AERI is working with Nova Chemicals, Shell and other industry partners to develop a demonstration centre for evaluating the feasibility of using bitumen, coal and other 'heavier-hydrocarbon' feedstocks. It is anticipated that such a centre will be operational by 2010.

KPM 2: Number of new fuel cell or hydrogen research projects supported.

2001 – 02 Baseline	2[11]
2002 – 03 Actual	1[*]
2010 Target	5

Source: Alberta Energy Research Institute[10].

[*] One additional Fuel Cell Demonstration project has been delayed to 2003 – 04.

Note: This Key Performance Measure is not continued in the 2003 – 06 Business Plan, as reporting simply on the quantity of projects supported does not address the actual amount of research investment, and therefore Alberta's energy research intensity.

Discussion of Results:

Progress has been made toward the 2010 target.

It is widely accepted that hydrogen will be the energy source of the future and that fuel cells may replace the internal combustion engine in cars and be a source of distributed power, as fuel cells have the potential to produce emissions-free energy. Alberta is Canada's largest producer of hydrogen. This is a clean fuel source that will need to be developed for Alberta to remain a major energy supplier for North America.

Two new projects were supported by AERI in 2001 – 02. The first was conducted at the University of Alberta by Dr. Karl Chuang, the second at the University of Calgary by Dr. R. A. Kydd. In 2002 – 03, one fuel cell research project was funded at the University of Alberta under the direction of Dr. Ivey.

Public education and awareness of this technology and its capabilities is important. At present, plans are underway to acquire a 200 KW fuel cell and to develop an interpretive centre for Fuel Cell Energy at the Northern Alberta Institute of Technology. This project will train technicians, supplying the market with a highly specialized work force, able to adopt this new technology when it becomes commercial. This project will also provide the public with the opportunity to interactively learn about fuel cell technology and environmental impacts. This would be the first fuel cell demonstration operating in Canada.

KPM 3: Aromatic[11] content of bitumen[12].

2001 Baseline*:	approximately 40% aromatic content of Synthetic Crude Oil (SCO) in bitumen
2002 Actual:	approximately 40% aromatic content of SCO in bitumen
2010 Target*:	To reduce the aromatic content of SCO by 10% to a level of approximately 30%.

Source: National Centre for Upgrading Technologies, 2003.

*2001 baseline data and 2010 target have been revised as per a new data source, the National Centre for Upgrading Technologies.

Note: Due to the problematic nature of measuring the aromatic content of bitumen and the lack of reliable, non-industry sources for this data, this measure will not be continued in the 2003 – 06 Business Plan.

Discussion of Results:

The aromatic content of SCO in bitumen remains unchanged.

Many North American oil refineries cannot easily accept synthetic crude produced from bitumen because of its high aromatic and sulphur content. Research is urgently needed to increase the amount of synthetic crude accepted by such refineries. This is critical, since bitumen production is expected to triple by 2012[13].

New upgrading technologies will reduce the aromatic content of SCO from bitumen, resulting in a synthetic crude which is acceptable to a higher number of refineries, as demonstrated through research. AERI has funded approximately $1 million for research in this area, which is leveraged by Federal Government and industry investments.

As anticipated, the aromatic content of SCO in bitumen has not changed in the past year. This measure focuses specifically on the percent reduction in aromatic content of bitumen. The absolute value of content will vary depending on the feedstock. A decrease will only occur when new upgrading technologies to reduce the aromatic content of bitumen found in synthetic crude have been developed through research either by universities, industry, or a collaboration of both, and then commercialized and applied by industry in new crude oil processing and refining facilities. The time lag from concept to application by industry for this type of technology is typically five to seven years[14].

In the 2003 – 06 business plan, all of the preceeding measures are being replaced with a measure which tracks AERI investment in five priority areas as well as the number of projects supported in these areas. This new measure reflects the importance of leveraged dollars in assessing the relevance of AERI's energy research investments and alignment with industry priorities.

Goal 3: To foster excellence in information and communications technology (ICT) research that contributes to Alberta's continued prosperity.

KPM 1: Number of world-class ICT researchers attracted by iCORE Inc.

Year	Number of New or Renewed iCORE Chairs and Professors	Total Number of Active iCORE Chairs and Professors
Annual Target: 4 additional major awards (new or renewed) each year through increased industry participation[15]		
2000 – 01 Baseline	6*	6[16]
2001 – 02 Actual	4	10
2002 – 03 Actual	3	13[17]

Source: iCORE Inc.

*The baseline of 4 major awards originally noted in the 2002 – 05 business plan was the target number of awards. In 2000 – 01, the actual number of major awards was 6.

Discussion of Results:

Three new major awards were given to world-class ICT researchers, not meeting the annual target of four major awards.

The number of "world-class ICT researchers" reflects not only the number of Chairs and Professors attracted to Alberta universities, but also the number of Chairs and Professors retained in Alberta. These include Research Chairs and Professors, and Industry Chairs, but not visiting professors, post-docs or graduate students.

Through iCORE, Innovation and Science is working to build Alberta's ICT research capability by attracting and retaining top leaders and research teams in this field. In the past year, three new major awards were given to world-class ICT researchers for a total of 13 research teams. Included in these numbers are the first two Industry Chair appointments made by iCORE. Each iCORE Chair or Professor leads a research team consisting of other professors, post-doctoral students and graduate students. These world-class research teams strengthen Alberta's knowledge-intensive economy, and thus its competitiveness.

In 2002 – 03, three new major awards were given to world-class ICT researchers. This is less than the target of four new major awards and is due to the long time that it takes to attract the researchers, the time that it takes to arrange for them to move to Alberta, and for Industry Chairs, the review process by NSERC that can add over six months to the time that it takes to review a candidate. This success rate is within the target range and does not require process adjustment by iCORE.

This measure is continued in the 2003 – 06 business plan however it has been modified to track graduate students as well. Graduate students are vital members of high-quality research teams that help to build a critical mass of research excellence.

Goal 4: To foster excellence in life sciences research that contributes to Alberta's continued prosperity.

Note: The 2002 – 05 Business Plan did not include performance measures for goal four. The Alberta Life Sciences Strategy was under development during the preparation of the 2002 – 05 business plan, and performance measures are yet to be established. Indicators are used to gauge the life sciences sector in Alberta. These indicators are located at the end of the Results Analysis section under the heading, "Indicators of Alberta's Innovation Performance."

Goal 5: To foster greater prosperity in Alberta from the commercialization of research in information and communications technology (ICT), life sciences and other areas of strategic importance.

KPM 1: The number of new collaborative ICT and life sciences research and development agreements facilitated between Alberta universities and research organizations and those in other jurisdictions.

2000 – 01 Baseline: Two umbrella agreements[18] and five sub-agreements.

1. Between Innovation and Science and the National Science and Technology Board and the Productivity Standards Board of Singapore (includes 5 sub-agreements).
2. Between Innovation and Science and the Ministry of Science and Technology of China.

2005 Target: Two new umbrella agreements by 2005 and six new sub-agreements (under existing umbrella agreements or new umbrella agreements) related to specific deliverables or projects.

2002 – 03 Actual: Two new umbrella agreements and two new sub-agreements

1. Between the province of Alberta as represented by Innovation and Science and the Brussels Capital Region (Belgium MOU).
2. Between Innovation and Science and Technopolis Plc of the Oulu, Finland region. Technopolis Plc is Finland's largest company specializing in the provision of operating environments for high tech companies. The Technopolis service concept combines communications to the academic and research community, tailored services, successful imaging and state-of-the-art facilities. This has resulted in two new sub-agreements: (1) Mobile Forum and TR Labs (mobile and wireless applications and network development), and (2) POEM Northern Film and Media Centre and Banff New Media Institute (new media collaboration).

Discussion of Results:

The 2005 target of two new umbrella agreements has been met and there has been substantial progress made on the 2005 target of six new sub-agreements.

Innovation and Science facilitated the development of international collaboration and innovation networks by establishing two international innovation-related agreements for Alberta in 2002 – 03. In particular, the new agreement between Technopolis Plc and Innovation and Science implies a broad cooperative relationship in areas of common interest related to health care research, mobile applications, new media and global software marketing. Both agreements further foster Alberta's prosperity by strengthening it's innovative capacity and competitive position in the global, knowledge-based economy.

This measure is not continued in the 2003 – 06 Business Plan as it is focussed on activity not outcomes, and therefore yields limited information for performance assessment purposes.

Goal 6: To attract, grow, establish, and retain information and communications technology (ICT) and life sciences businesses in Alberta.

■ KPM 1: Employment in the ICT Sector in Alberta

1999 Actual	2000 Actual	2001 Actual	2002 Actual	2005 Target
50,300	53,700	56,000	54,500	85,300

Source: Labour Force Survey, Statistics Canada[19]

Discussion of Results:

The number of ICT workers in Alberta has decreased in the past year, moving away from the 2005 target of 85,300 workers.

This downward trend is most likely due to the global slowdown in the telecommunications industry in 2001 – 02, following growth in the previous year. Despite the worldwide slowdown in this sector in the past year, when considering the long term trends, Alberta's ICT workforce is growing.

The ICT and other high-technology sectors and their associated development are considered to be at the very heart of knowledge-driven economics. These services provide the base for facilitating global communications, as well as being vitally important for mobilizing knowledge-based development within and across sectors.

Innovation and Science is taking action to grow a skilled ICT workforce in Alberta, through efforts such as technology missions to the Unites States, as well as attracting world-class ICT researchers, through iCORE Inc.

New targets have been included for this measure in the 2003 – 06 business plan. These targets are based on an estimated 5.7% annual growth rate and were revised to reflect a slowdown occurring in the telecommunications industry.

Core Business 2: Corporate ICT

Goal 7: To strengthen the Alberta Advantage by maximizing the opportunities presented by a province-wide high-speed information and communications technology (ICT) capability through Alberta SuperNet.

KPM 1: Availability of Alberta SuperNet to: a.) 422 communities and b.) approximately 4700[20] stakeholders during the three-year construction period.

1a. Communities Connected*:

	2001 – 02 Baseline	2002 – 03 Target	2002 – 03 Actual	2003 – 04 Target	2004 – 05 Target
Number of Communities *(Cumulative)*	0	133	6	356	422

Source: Alberta SuperNet Team, BuildMaster Database.

*Community Connection Targets are based on scheduled Segment Substantial Completion dates provided by Bell West Inc. in their Recovery Schedule Proposal. A Segment is a logical geographical grouping of communities within the Network, and Segments are considered to be Substantially Complete when all construction and testing has been completed, and the communities are ready to be turned operational.

1b. Stakeholders Connected (including schools, hospitals, libraries and provincial government ministries) as per the Business Plan 2002 – 05:**

	2001 – 02 Baseline	2002 – 03 Target	2002 – 03 Actual
Schools	0 sites	478 sites	12
Total of 2527		(19%)	(0%)
Hospitals	0 sites	114 sites	5
Total of 542		(21%)	(1%)
Libraries	0 sites	84 sites	0
Total of 303		(28%)	(0%)
GOA Stakeholders[21]	0 sites	292 sites	14
Total of 1284		(23%)	(1%)

Source: Alberta SuperNet Access Manager and Operator — Axia SuperNet Ltd.

**The 2002 – 03 Actuals represent Stakeholders not only connected but operational on SuperNet as at March 31, 2003.

Note 1: The above chart does not reflect targets for 2003 – 04 and 2004 – 05 due to the fact that these numbers (reflected in the 2002 – 05 and 2003 – 06 Business Plans) have changed significantly. These changes are reflective of delays in progress experienced due to a commercial dispute between Prime Contractor, Bell West Inc. and their Subcontractor, Axia SuperNet Ltd., which was resolved March 19, 2003. The revised targets shown in Table 1c, now reflect work remaining on the project based on the completion dates within Bell West's Recovery Schedule Proposal.

Note 2: The above table originally reported in the 2002 – 05 Business Plan, contemplated 'operational' sites. As this measure seeks to report on the build/construction of SuperNet over the three-year contractual period, the definition of 'connected' and the numbers reported have been revised in order to accurately reflect build/construction progress. See Table 1c.

1c. New Measure — Stakeholders Connected* (including schools, hospitals, libraries and provincial government ministries):**

	2001 – 02 Baseline	2002 – 03 Target	2002 – 03 Actual	2003 – 04 Target	2004 – 05 Target
Schools Total of 2072	0 sites	172 (8%)	28 (1%)	1639 additional (Cumulative total 1667) (80%)	405 additional (Cumulative total 2072) (100%)
Hospitals Total of 414	0 sites	76 (18%)	8 (2%)	333 additional (Cumulative total 341) (82%)	73 additional (Cumulative total 414) (100%)
Libraries Total of 308	0 sites	22 (7%)	3 (1%)	277 additional sites (Cumulative total 280) (91%)	28 additional sites (Cumulative total 308) (100%)
GOA Stakeholders Total of 1207	0 sites	259 (21%)	98 (8%)	932 additional (Cumulative total 1030) (85%)	177 additional (Cumulative total 1207) (100%)

Source: Alberta SuperNet Team, BuildMaster Database.

***Number of Stakeholders is preliminary and may be adjusted during the construction of the SuperNet Network. A school, hospital, library, or Government of Alberta Stakeholder is considered to be 'connected' when the buildings housing these SuperNet service locations have fibre available to them for service provisioning.

See Note 2 of Table 1b for explanation to the change in methodology.

Discussion of Results:

2002 – 03 targets have not been met (see also Notes 1 and 2).

Albertans are increasingly expecting that programs and services will be available on-line, any time, anywhere in Alberta. Meeting these expectations cost effectively requires a high degree of collaboration between government ministries as well as the seamless sharing of information between ministries, while ensuring that Albertans' concerns for privacy and security are respected.

The Ministry of Innovation and Science is responding to these needs through Alberta SuperNet. This province-wide ICT infrastructure will provide affordable, high-speed broadband access to all universities, school boards, libraries, hospitals, and provincial government stakeholders in Alberta in 2004. This network will be the foundation for electronic delivery of government programs and services to Albertans in 422 communities throughout the province and will also facilitate the provision of high-speed Internet access to businesses and Albertans in these communities through independent Internet service providers accessing services from the SuperNet infrastructure.

Bell West Inc., the Prime Contractor, remains committed to the completion of the SuperNet infrastructure in 2004 as contracted despite the fact that currently, progress on the originally announced rollout schedule is behind. The purchase of existing fibre optic cable from provincial suppliers have been incorporated into the design and build of the network, allowing significant progress in a short period of time.

KPM 2: Percentage of Albertans with availability to high-speed Internet.

2002 – 03[22] Baseline	
Rural Alberta	38%
Urban Alberta	79%

Source: Environics-Summary of Focus Alberta Omnibus Results. August 2002.

Discussion of Results:

2002 – 03 Baseline has been developed.

Seventy-nine per cent of Albertans in urban areas, and 38% in rural areas have access to high-speed Internet services. Access to the Internet, or connectedness, is the overall ability of people to use information and communications technologies and is a necessary ingredient of a knowledge-based economy and society. In such a society, improving the skills and knowledge of Albertans is a critical factor for our socio-economic performance and potential and for fostering the Alberta Advantage. Connectedness can improve: competitiveness, innovative capabilities, public services, community capacity, and individual potential. For most Albertans, the most popular use of the Internet today is e-mail, although education and training, entertainment and searching for information are also common uses. But as the capacity, interactivity and multimedia availability of networks grow, applications will increase in the areas of learning, public services and consumer products and services.

As a baseline, this key performance measure is a good reflection of the digital divide which SuperNet will help to address in Alberta. Beyond that, however, the data presented in this performance measure does not single out only the efforts of Alberta SuperNet, but reflects the presence of high-speed Internet provided by any telecommunications company, and is therefore, not continued in the 2003 – 06 Business Plan.

KPM 3: The number of government programs/services provided to Albertans that are SuperNet ready.

2001 – 02 Baseline	8
2002 – 03 Target	23
2002 – 03 Actual	30
2003 – 04 Target	38
2004 – 05 Target	53

Source: http://www.servicealberta.ca/pages/category.asp?EK=602[23]

Discussion of Results:

2002 – 03 target was exceeded.

As of March 31, 2003, the Government of Alberta offered 30 government, programs and services to Albertans electronically through its Service Alberta Internet site at www.servicealberta.ca. These government services will be delivered on the SuperNet infrastructure when completed. This means that the capability to access government programs and services at any time of the day, without picking up a telephone or visiting a government office, will be available to 422 communities in the province, thereby furthering the Alberta Advantage.

Corporate divisions within Innovation and Science support a number of key cross ministry initiatives, including the Service Alberta Initiative.

Government Services, which leads the Service Alberta Initiative, is also tracking the number of transactional services offered through Service Alberta (essentially the same results reported in this measure). Over the next year, Innovation and Science will collaborate with Government Services to ensure a coordinated approach on the reporting of these results.

Goal 8: To be recognized internationally as a leader in the innovative and cost-effective use of information and communications technology (ICT) in the delivery of government programs and cost effective government administration.

KPM 1: Adoption of corporate standards by individual departments.

Percentage of GOA desktops converted to the Windows 2000 and Office 2000 Standard[24]

2001 – 02 Baseline	36%
2002 – 03 Target	92%
2002 – 03 Actual	87%

Source: Office of the Chief Information Officer — Survey of Government Ministries.

Discussion of Results

2002 – 03 target was not met.

Adoption of Corporate Standards for desktops by government departments assess the implementation of the Government of Alberta's strategic goal to enable all government departments to share a standardized computer network infrastructure. Eighty-seven per cent of all desktops within the Government of Alberta have adopted the Windows 2000 and Office 2000 Standard. Due to competing financial priorities, a small number of ministries were unable to meet the targets set out for conversion of desktops.

As government looks at new ways of delivering services and information to Albertans, there is a need to develop sufficient and consistent standards coordinated across government. A cross-government framework will enhance and improve direct service delivery to Albertans by government and its extended stakeholders as well as collectively reducing total ICT operating and maintenance costs to government.

Indicators of Alberta's Innovation Performance: Setting the Context

For the past three to five years, the lack of a standardized methodology in collecting data relating to innovation has been a problem worldwide. Many jurisdictions around the world now produce innovation scorecards or indices of one type or another. The scorecards differ widely from one region to the next, however, most of these indices use multiple data sets and use a mix of input, process and output measures, as there currently exists no standard set of metrics that adequately illustrate the innovation performance of a country or province.

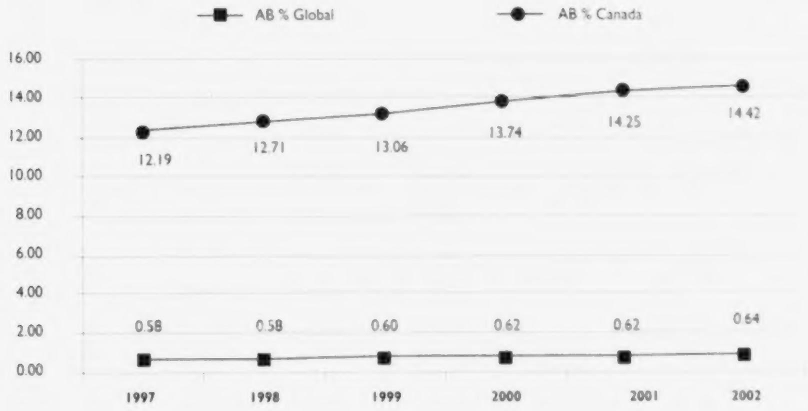
The key performance measures in the previous section are directly tied to the goals and the efforts of the Ministry of Innovation and Science. There are, however, a number of other indicators that can be used as a diagnostic of Alberta's innovation performance. Some of these are outlined below.

While the Ministry does not directly impact the following metrics, they provide additional information for readers to assess the success of Alberta's innovation system. Innovation in a knowledge-based economy is diverse and pervasive. It is not just based on research, or science and technology, or enterprise and ingenuity — although all of these remain very important contributing factors. An innovation system consists of all of the components and interactions that influence the creation of knowledge, right through to the adoption of new products and processes. These indicators are by no means exhaustive, but should be considered in conjunction with the performance measures outlined under the goals in the Results Analysis section of this report.

Please note: while the majority of the following indicators correspond with Core Business 1 — Research and Development, two indicators which correspond with Core Business 2 — Corporate ICT, are also included. As well, an indicator which focusses on the human resource priorities within the department is included.

Goal 1: Quality and Capacity of Alberta's Research System

Indicator 1: Alberta Publications as a percentage of Canadian and global publications.

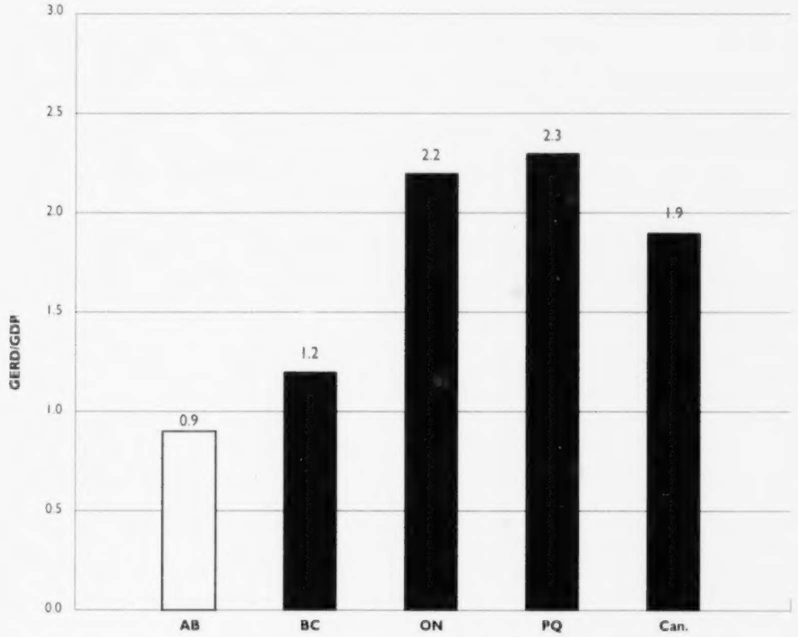


Source: ISI International, 2001.

Note: Data may change slightly each year as ISI expands its database. Further, there are occasional time lags between publication and capture by ISI. For 2002 data, additional care was taken to improve the capture of Alberta data, resulting in a slight shift in data.

This report focuses on total Alberta research publications rather than university research publications as it better reflects quality and capacity of all research in Alberta including such research institutions as ARC and TR*Labs* rather than a narrower focus of simply university research. Alberta's research publications are less than 1% globally, but have grown to represent nearly 15% of Canadian publications.

Indicator 2: Alberta's Gross Expenditures on Research and Development (GERD) as a percentage of Provincial Gross Domestic Product (GDP) in comparison to Ontario, Quebec, and BC.



Source: Statistics Canada, Science Bulletin. *Total Spending on Research and Development in Canada, 1990 to 2002p, and Provinces, 1990 to 2000*. November, 2002 Catalogue 88-001-XIB/ISSN 1209-1278.

Alberta's GERD as a percentage of GDP is the second lowest in Canada, just ahead of New Brunswick at 0.8. Alberta's poor relative performance on this indicator suggests that the province is lagging behind others in the development of new knowledge.

Indicator 3: Importance of science and research to Albertans.

2001 Baseline: 95% of Albertans surveyed reported that research conducted at universities and with industry is important or very important to their quality of life.

2002 New Survey Question: 95.8% of Albertans surveyed reported that it is somewhat or very important for the provincial government to support research and development in Alberta.

Source: Focus Alberta. *Research Findings for Innovation and Science*. Environics West. November 2002.

Goal 2: Energy Research Excellence

Indicator 4: Energy intensity and greenhouse gas emissions.

2001 – 02 Baseline: 106 kg* of CO_2 per barrel of bitumen.

2002 – 03 Estimate: 115 kg of CO_2 per barrel of bitumen.**

Sources: Suncor Energy Inc. Eight Annual Progress Report, October 2002 and Syncrude: An Action plan for Reducing Greenhouse Gas Emissions. Submitted to VCR Inc., October 2002.

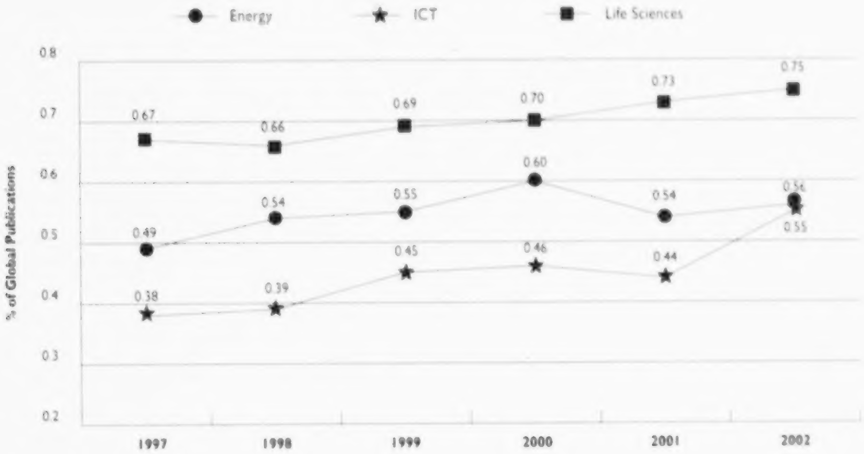
*This figure has been modified since first published in the 2002 – 05 Business Plan as more reliable and verifiable sources for this data have since been found.

** Average of Suncor and Syncrude estimates for 2002 – 03.

Energy intensity is the amount of energy required to produce a barrel of bitumen. The consumption of this energy results in CO_2 production. Therefore, a reduction in energy intensity is a measure of greater production efficiency and lower CO_2 production per barrel of bitumen produced.

Goals 2, 3 and 4: Energy, ICT, and Life Sciences Research Excellence

Indicator 5: Alberta publications as a percentage of global publications in energy, ICT and life sciences research.



Source: ISI International, 2001.

Note: Data may change slightly each year as ISI expands its database. Further, there are occasional time lags between publication and capture by ISI. For 2002 data, additional care was taken to improve the capture of Alberta data, resulting in a slight shift in data.

Alberta's proportion of publications in all three research areas has increased over the past four years compared to the rest of the world.

Goal 3: ICT Research Excellence

Indicator 6: Number of researchers and graduates of TRLabs.

Year	Researchers	Graduates*
2000 – 01 Baseline	Not available**	29
2001 – 02 Actual	73 (as of June 2003)	31

Source: TR*Labs* Annual Report 2000 – 01 and 2001 – 02. www.trlabs.ca

* The number of graduates through TR*Labs* will be reported and not the current number of graduate students as this better reflects the ICT research community within Alberta. Data has been revised since reported in the 2002 – 05 Business Plan.

** Due to unreliable data, the number of researchers at TR*Labs* is not available for 2000 – 01.

TR*Labs*, Canada's largest research consortium (industry, university, government) in information and communications technology, employs a total of 73 researchers and 31 graduate students in Alberta.

Indicator 7: Number of graduate students (MSc. and PhD.) studying Computer Science and Electrical and Computer Engineering at the University of Alberta and the University of Calgary.

2000 – 01 Baseline	513
2001 – 02 Actual	689
2002 – 03 Actual	899

Source: iCORE Inc.

The number of ICT graduate students at Alberta's two major universities has increased in the past year by more than 30%.

Goals 2, 3 and 4: Energy, ICT, and Life Sciences Research Excellence

Indicator 8: Sponsored energy, ICT, and life sciences research and development in Alberta universities.

(millions of dollars)	2001 – 02 Baseline
Energy	$53.9
ICT	$21.3
Life Sciences	$239.2

Source: University of Alberta, University of Calgary, University of Lethbridge, Athabasca University.

Sponsorship for energy, ICT and life-sciences research and development at Alberta universities totaled $53.9 million, $21.3 million, and $239.2 million, respectively in 2001 – 02.

Goal 4: Life Sciences Research Excellence

Indicator 9: Number of graduates from life sciences-related programs during academic year at Alberta universities, NAIT and SAIT.

Degree/Certificate	1998 Baseline	1999 Actual	2000 Actual	2001 Actual	2002 Actual
PhD	138	123	143	142	145
Master	244	268	292	306	306
Bachelor	2371	2538	2387	2481	2581
Technical Diplomas* and Certificates	848	919	979	1145	951
TOTAL	**3601**	**3848**	**3801**	**4074**	**3983**

Sources: University of Alberta, University of Calgary, Athabasca University, University of Lethbridge, Northern Alberta Institute of Technology, and Southern Alberta Institute of Technology

*Includes post graduate diplomas at Alberta universities.

Note: Medical Doctor graduates are captured in Bachelor and Master data.

The number of graduates in life sciences-related programs in Alberta has increased in the past five years. These graduates from a range of life science — related disciplines such as dental hygienists to PhD in Renewable Resources will further support the growth of Alberta's life sciences sector.

Indicator 10: Number of faculty researchers and students supported by the Alberta Heritage Foundation for Medical Research.

	1998 – 99 Baseline	1999 – 00 Actual	2000 – 01 Actual	2001 – 02 Actual	2002 – 03 Actual
Faculty Researchers	176	201	226	245	250
Students (Masters and PhDs)	176	200	207	210	219

Source: Alberta Heritage Foundation for Medical Research

The number of people supporting the life sciences sector in Alberta has grown each year since 1998 – 99, thereby increasing Alberta's capacity to compete in the global knowledge economy.

Goal 5: Fostering Technology Commercialization

Indicator 11: The value of industrial research investments attracted to Alberta research institutions.

Research Institution	1999 – 00 Baseline	2000 – 01 Actual	2001 – 02 Actual
University of Alberta	$22,143,000	$29,853,000	$24,798,000
University of Calgary	$20,873,000	$29,628,000	$25,731,000
University of Lethbridge	$110,000	$47,000	$162,000
Athabasca University	$4,000	$4,000	$4,000
Alberta Research Council Inc.	$22,200,000	$27,200,000	$31,000,000

Source: Research Funding at Alberta Universities 2001 – 02 and Alberta Innovation and Science audited financial statements contained in annual reports 1999 – 00, 2000 – 01, and 2001 – 02.

Over time, industry is increasing its investment in research conducted by research institutions in Alberta. This is important as business investments in research and development are closely tied to the commercialization of research results.

Indicator 12: Number of patents issued from Alberta-based technologies

	University Technologies International (U of C)	Research Services Office** (U of A)	Alberta Research Council Inc.
2000 – 01 Baseline	22	17	26*
2001 – 02 Actual	36	38	43

Sources: Industry Liaison Office Annual Report 2001 – 2002; University Technologies International Annual Review, 2001 – 02 and 2000 – 01; ARC 2002 Annual Report.

*Data revised as per the 2000 – 01 ARC Annual Report.

**The Industry Liaison Office at the University of Alberta is now referred to as the Research Services Office.

Patents are an indication of the fact that the results of research are considered to have significant commercial potential. The increasing number of patents at the U of A, U of C and the Alberta Research Council Inc. indicates that there are more ideas coming out of these institutions that are considered to have commercial potential.

Indicator 13: Number of spin off companies resulting from Alberta research

	University Technologies International (U of C)	Research Services Office (U of A)
2000 – 01 Baseline	3	8
2001 – 02 Actual	5	9

Sources: Industry Liaison Office Annual Report 2001 – 2002; University Technologies International Annual Review, 2001 – 02 and 2000 – 01. The Industry Liaison Office is now called the Research Services Office.

An increase in the number of spin off companies emerging from the U of A and the U of C indicates a strengthening ability to capture the intellectual property created in Alberta, and develop it locally to the benefit of the province.

Indicator 14: Licensing Revenue

$ millions	University Technologies International (U of C)	Research Services Office (U of A)	Alberta Research Council Inc.
2000 – 01 Baseline	3.6	7.6	3.6[**]
2001 – 02 Actual	2.5[*]	2.1	4.8

Sources: Industry Liaison Office Annual Report 2001 – 2002; University Technologies International Annual Review, 2001 – 02 and 2000 – 01; ARC 2002 Annual Report. The Industry Liaison Office is now called the Research Services Office.

[*] Includes active licenses form previous years.

[**] 2000 – 01 figure differs from that in the ministry 2002 – 05 Business Plan to reflect ARC 2001 Annual Report's audited consolidated statement of revenues for royalties, licensing fees and product sales.

Licensing revenue is decreasing at Alberta university-based research institutions, but has increased at the Alberta Research Council Inc. Licensing revenue provides an indication of the value that others place on the ideas/intellectual property that are emerging from Alberta research institutions.

Goal 6: Attracting, Growing, Establishing and Retaining ICT and Life Sciences Businesses

Indicator 15: Venture capital invested in Alberta early-stage, high-tech companies.[*]

1999 Baseline	$38.1 million
2000 Actual	$123.7 million
2001 Actual	$63.6 million
2002 Actual	$16.9 million

Source: VC Reporter/Macdonald & Associates

[*] Represents new and follow-on venture capital investment. "High-tech" includes life sciences, ICT and other technologies.

Note: The scope of the indicator has been refined to better reflect the venture capital activity of Alberta's knowledge-intensive sectors. This has resulted in a data revision presented in the Ministry's 2002 – 05 Business Plan

Total venture capital invested in Alberta has dropped since 2000. Venture capital in Alberta's early stage, high tech companies has decreased by 86% since 2000. The venture capital Industry as a whole declined by more than 50% in Canada. This can be explained by a particularly strong year for venture capital investment in life sciences, doubling the life sciences figure for 2000. Most likely brought on by world events such as the tragedy of September 11, 2001, the drastic drop in 2002 investment was experienced throughout Canada, as national venture capital investment in early stage high-tech companies decreased by 59%.

Indicator 16: Employment in the life sciences sector[**] in Alberta.

2000 Baseline	55,900
2001 Actual	62,400
2002 Actual	59,100

Source: Labour Force Survey 2002, Statistics Canada, Custom Tabulation

The 2000 baseline reported in the 2002 – 05 Business Plan was an estimate, and has been revised using data obtained from Statistics Canada, based on the Standard Occupational Classification System. Statistics Canada will remain the source for future reporting of employment in the life sciences sector.

Employment in the life sciences sector has decreased in Alberta from 2001 to 2002. This indicator is continued in the 2003 – 06 Business Plan as a Key Performance Measure.

Goal 8: Innovative and Cost-Effective Use of ICT within the Government of Alberta

Indicator 17: Savings realized through corporate ICT purchases that would be available for re-investment.

Purchase *Rounded to nearest thousand*	**2000 – 01 Baseline Estimated Savings**	**2001 – 02 Estimated Savings**	**2002 – 03 Estimated Savings**
Year-end Consolidated IT Purchase	$1,088,000	$379,000	$1,129,000
Savings from the Microsoft Enterprise Agreement	$100,000	$100,000	$100,000
Oracle Tools Migration	–	$47,000	$105,000*
Total	**$1,188,000**	**$526,000**	**$1,334,000**

Source: Alberta Corporate Service Centre — Procurement Section.

*Savings in 2001 – 02 were based on the initial migration less upgrade costs. Now that the migration is complete, Government will see an ongoing net annual savings in maintenance costs.

Since 2000 – 01, corporate ICT purchases have resulted in a total of $3,048,000 for re-investment into higher priority ICT initiatives by the Government of Alberta, thereby creating further efficiencies and added value.

Indicator 18: Number of cross government ICT applications developed and implemented.

Application	**Year Commissioned**	**% Implementation 2002 – 03 as per 2002 – 05 Business Plan**	**% Implementation 2002 – 03 New Methodology***
Alberta Government Integrated Management Information System (IMAGIS)			
Financial Management System Modules:			
General Ledger	1997	78% of business units	100% of Departments
Accounts Payable	1997	53% of business units	100% of Departments
Purchasing	1999	23% of business units	68% of Departments
Procurement Card	2000	6% of business units	36% of Departments
Accounts Receivable	1999	36% of business units	60% of Departments
Billing Module	1999	15% of business units	44% of Departments
Budget Module	1998	6% of business units	28% of Departments
Human Resource Management System	1998	100% of Departments	100% of Departments
Alberta Government Employee Net (AGent)	2000	80% of employees	100% of Departments**
Electronic Payment System	2000	96% of Departments	96 % of Departments
On-line Expense Claim (ExClaim)	2001	96% of Departments	96% of Departments
Action Request Tracking System (ARTS)	1999	88% of Departments	88% of Departments
Contract Management System	2001	1 Department fully implemented 1 Department preparing for implementation	1 Department fully implemented 1 Department preparing for implementation

Source: Alberta Government Integration Management Information System (IMAGIS).

*As the different activities of the business units do not necessarily require implementation of these particular applications, the methodology for collecting data has changed from Business Units to Departments to be more reflective of the adoption and implementation of ICT applications across government. The Electronic Payment System, the Action Request Tracking System, and Contract Management System continue to be measured by Department adoption and implementation.

**Implementation of AGent by 100% of Departments translates to 80% of employees. These numbers are varied as not all employees have access to a computer and are therefore not utilizing AGent.

The CIO is establishing a government-wide approach to ICT. This indicator focuses on applications as they are adopted by departments according to their business needs. More Government of Alberta departments are adopting corporate ICT standards, thereby increasing the efficiency and effectiveness of government.

Indicator 19: Innovation and Science Employee Satisfaction and Awareness of Departmental Business Plan.

Measure	1999 – 00 Baseline	2000 – 01 Actual	2001 – 02 Actual	2002 – 03 Actual	2002 – 05 Target
Percentage of employees who know and understand how their work contributes to the achievement of their department business plan	84%	77%	87%	78%	90%
Percentage of employees who are very/somewhat satisfied with their employment at Innovation and Science/Government of Alberta	83%	88%	88%	83%	88%
Percentage of employees who agree that Innovation and Science provides the support they need to acquire or develop knowledge and skills in their current job	83%	86%	79%	73%	85%
Percentage of managers who agree that the employees they manage have the skills to meet the anticipated requirements of their job over the next 3 years.	–	–	80%	76%	85%
Percentage of employees indicating that their organization provides expected outcomes for their work	66%	68%	62%	61%	85%
Percentage of employees indicating that their organization helps them know and understand how well they are performing.	77%	69%	54%	58%	85%

Source: Topline Frequencies of the Results of the 2002 Corporate Employee Survey. (Government Survey of Innovation and Science Employees*)

*Alberta Innovation and Science employee survey results have a margin of error no greater than +/- 5.0% at the 95% confidence level.

This indicator did not appear in the 2002 – 05 business plan but was included to reflect the fact that the ministry considers the improvement of these results to be a priority. This year, 117 employees of Alberta Innovation and Science were surveyed in the Corporate Employee Survey conducted as part of a survey of 7,068 employees across Government of Alberta departments. Overall, 83% of employees said they were very satisfied or somewhat satisfied in their work, which is 2% higher than the results for all Government of Alberta employees (81% were satisfied). Targets related to the percentage of employees provided with expected outcomes for their work and organizational support to help employees know and understand how well they are performing were not met. As similar results were reported across government, this will be a priority focus for both the department and government over the next year. An Innovation and Science working group has been established to respond to the results of the employee survey, with alignment of employee performance with department and government goals and priorities being a major focus. The working group will review the totality of the employee survey results and recommend strategies to address identified issues.

Looking Ahead for 2003 – 04

For the coming year, Alberta Innovation and Science will work with other Government of Alberta ministries, universities, industry, and other partners to:

- Continue to build excellence in, and enhance the quality and capacity of, Alberta's research and development system;
- Foster excellence in energy, information and communications technology (ICT), and life sciences research that contributes to Alberta's continued prosperity;
- Foster the growth of knowledge-based industries and establish Alberta as a preferred location for the commercialization of technologies;
- Strengthen the Alberta Advantage by maximizing the opportunities presented by a province-wide high-speed ICT capability through Alberta SuperNet; and
- Work to ensure that the Government of Alberta is recognized internationally for transforming the delivery of government programs and services through the innovative use of ICT.

Preview of the 2003 – 06 Business Plan

In developing the 2003 – 06 Business Plan, Innovation and Science used the same basic ideas that were included in the 2002 – 05 Plan with the single major difference being the amalgamation of goals 5 and 6 into a new combined goal addressing both technology commercialization and business growth and development in ICT and life sciences within the 2003 – 06 Plan.

The performance measures in the 2003 – 06 Business Plan have changed somewhat from the 2002 – 05 Plan. The new plan incorporates many of the same performance measures as the previous plan, with a few changes. For example, employment in the ICT sector in Alberta and Alberta University Sponsored Research data are included again in the new plan. However, a number of new measures have been introduced, and some have been omitted.

One additional difference between the two plans is the 2003 – 06 Plan does not include indicators as we would like to focus attention on key performance measures which our activities can significantly impact. Although indicators will not appear in the business plan, the Ministry will continue to track a variety of indicators for internal use in long term, strategic planning.

Established in 1999, Innovation and Science is a relatively new ministry within the Government of Alberta. As the ministry and its core businesses evolve, there are likely to be modifications and enhancements in its business plans. It is anticipated that there will be such improvements to upcoming business plans, particularly in the improvement of performance measures, as the ministry is making an on-going effort to establish the best methods for measuring progress toward it's goals. This continuous development and refinement is quite conventional the world over, as governments struggle to develop adequate measures to gauge success in the innovative, knowledge-intensive economy. Major revisions to the core businesses, however, are not anticipated over the next few years.

Discussion of Financial Performance

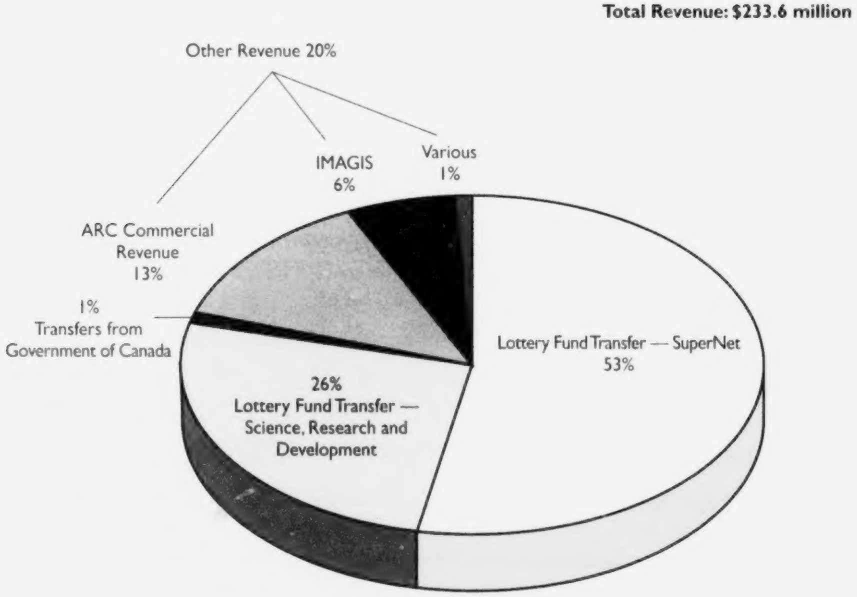
Innovation and Science Net Operating Results

(In thousands)

	2003 Budget	2003 Actual	2002 Actual
Revenue			
Internal Government Transfers — Lottery Fund	$ 182,644	$ 182,644	$ 90,838
Transfers from Government of Canada	2,000	2,816	2,386
Investment Income	840	931	752
Other Revenue	57,515	47,199	50,144
	$ 242,999	$ 233,590	$ 144,120
Expenses			
Research and Development	$ 148,633	$ 137,564	$ 137,430
Corporate Information and Communications Technology	55,773	59,212	50,754
Ministry Support Services	4,335	4,219	4,188
Valuation Adjustment — Provision for Vacation Pay	–	110	382
	$ 208,741	$ 201,105	$ 192,754
Loss on Disposal of Capital Assets	$ –	$ 1,061	$ 414
Net Operating Results	$ 34,258	$ 31,424	$ (49,048)

Financial results of the Ministry of Innovation and Science for the year ended March 31, 2003 include the activities of the Department of Innovation and Science and the Alberta Science and Research Authority. More detailed information can be found in the Ministry's financial statements (beginning on page 49).

Revenues
Sources of Revenue



Revenue for the Ministry of Innovation and Science totaled $233.6 million for 2003, as follows:

- $182.7 million was received through an internal government transfer from the Lottery Fund; $121.8 million for operating expense and capital investment related to the Alberta SuperNet Initiative and $60.8 million for science, research and development initiatives.
- $2.8 million in transfers from the Government of Canada primarily for the provision of research work by the Alberta Research Council.
- $0.9 million in investment income due to interest earned on bank accounts of the Alberta Science and Research Authority and the Alberta Research Council.
- $47.2 million in Other Revenue as follows:
  - $32.3 million in contract revenue for the Alberta Research Council from the provision of research work.
  - $13.3 million in revenue for the provision of IMAGIS (cross-government financial and human resource applications) to government departments and agencies on a charge-back basis.
  - $ 1.6 million in other income (e.g., energy technology/production sales).

Comparison of 2003 Actual to Budget

Revenues were $9.4 million lower than budgeted primarily due to:

- $12.2 million decrease in contract revenues received by the Alberta Research Council, and
- $1.9 million increase in revenues received from participating Government of Alberta departments and agencies for IMAGIS amortization and upgrade activities.

Comparison of 2003 Actual to 2002 Actual

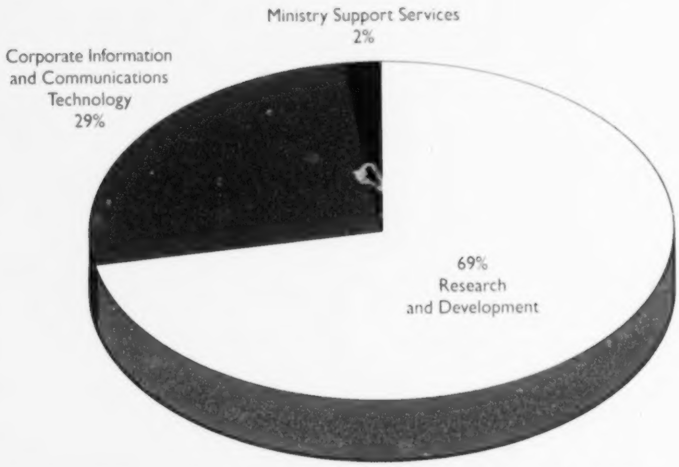
Revenues for the Ministry increased $89.5 million over 2002, as a result of:

- $71.8 million increase in Lottery Fund allocations for SuperNet as funding requirements were higher in 2003 than 2002.
- $20.0 million increase in Lottery Fund allocations for Research and Development initiatives.
- $3.0 million decrease in Other Revenue as a result of lower than anticipated contract revenues in ARC partially offset by increased costs for IMAGIS amortization and upgrade activities.

Expenses

Expenses by Core Business

Total Expenses: $201 million



Expenses for the Ministry of Innovation and Science totaled $201 million for 2003, as follows:

- $137.6 million of the Ministry's expenses relate to Research and Development, consisting of :
  - $131.3 million for Alberta Science and Research Authority grant programs, including:
    - $61.9 million for the Alberta Research Council Inc.
    - $38.1 million for university research
    - $10.1 million for the iCORE Inc.
    - $9.1 million for the Alberta Agricultural Research Institute
    - $6.9 million for the Alberta Energy Research Institute
    - $1.8 million for the Alberta Forestry Research Institute
    - $3.5 million for Technology Commercialization Initiatives
  - $6.2 million for program delivery support.
- $59.2 million for Corporate Information and Communications Technology.
- $4.2 million for Ministry Support Services including Minister's Office, Deputy Minister's Office, Policy Development and Coordination, Finance, Human Resources and Communications

Comparison of 2003 Actual to Budget

Expenses were $7.6 million lower than budgeted primarily due to:

- A $12.0 million decrease in spending for the Alberta Research Council Inc. (ARC) due to lower than anticipated levels of contract research activity. This decrease offsets a corresponding decrease in ARC's contract research revenues.
- A $1.0 million decrease as a result of changes in the implementation schedule of SuperNet.
- A $4.4 million increase in spending on Corporate Information & Communications Technology initiatives ($1.9 million in IMAGIS costs for amortization and upgrade activities; $2.5 million for IT initiatives offset by a reduction in capital spending).

Comparison of 2003 Actual to 2002 Actual

Expenses were $8.6 million higher than in 2002 primarily due to:

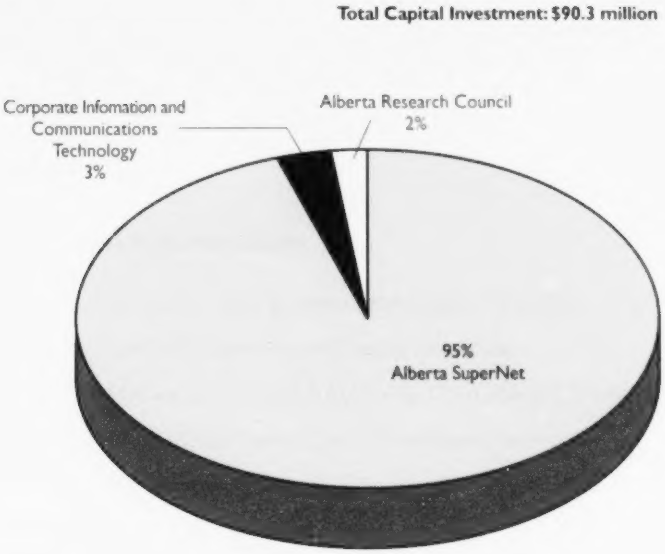
- An increase of $7.4 million for IMAGIS amortization and upgrade activities.
- A $1.0 million increase in spending on SuperNet operations and Community Involvement initiatives.

Capital Investment		**(In thousands)**	
	2003 Budget	**2003 Actual**	**2002 Actual**
Alberta SuperNet	$ 117,800	$ 85,357	$ 38,994
Information and Communications Technology	5,899	2,740	4,813
Alberta Research Council Inc.	4,296	2,157	2,188
Ministry Support	–	–	102
	$ 127,995	$ 90,254	$ 46,097

Capital Investment for the Ministry of Innovation and Science totaled $90.3 million for 2003, as follows:

- $85.4 million for Alberta SuperNet.
- $2.7 million for Corporate Information and Communications Technology activities (e.g., IMAGIS, computer hardware and software, telecommunications equipment).
- $2.2 million for the Alberta Research Council Inc. (e.g., research equipment).

Capital Investment by Program



Comparison of 2003 Actual to Budget

Capital Investment spending was $37.7 million lower than budgeted as a result of:

- A $32.5 million decrease in spending on Alberta SuperNet. Treasury Board has approved the deferral of these funds into 2003 – 04 ($20.5 million in capital investment and $2.0 million in operating) and 2004 – 05 ($10.0 million in capital investment).
- A $3.2 million decrease in corporate ICT and network infrastructure initiatives to offset increased operating requirements.
- A $2.1 million reduction in capital spending by the Alberta Research Council.

Comparison of 2003 Actual to 2002 Actual

Capital Investment spending was $44.2 million higher than in 2002 as a result of a $46.4 million increase in spending for the construction of the Alberta SuperNet network. This increase is partially offset by reductions in corporate ICT and network infrastructure initiatives in 2003.

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MINISTRY OF INNOVATION AND SCIENCE
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

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AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Innovation and Science as at March 31, 2003 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the management of the Ministry. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Ministry is required to follow the corporate government accounting policies and reporting practices established by Alberta Finance, including the following policy that is an exception from Canadian generally accepted accounting principles:

> Capitalization of Assets
>
> Capital assets costing less than $15,000 have been expensed in the year acquired and have not been recognized as assets in the accompanying consolidated statement of financial position. Consequently, the annual amortization of these assets has not been recognized in the consolidated statement of operations. In my opinion, an amount of approximately $3,045,098 representing the net book value of the assets as at March 31, 2003, should be recognized as capital assets. The effect of this understatement of capital assets is to understate expenses by approximately $1,787,225 for the year ended March 31, 2003.

In my opinion, except for the effects of the matter discussed in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 23, 2003

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 2003

(In thousands)

	2003		2002
	Budget	Actual	Actual
REVENUES (Note 2)			
Internal Government Transfers	$ 182,644	$ 182,644	$ 90,838
Transfers from Government of Canada	2,000	2,816	2,386
Investment Income	840	931	752
Other Revenue	57,515	46,798	48,743
Revenue from Discontinued Operations (Note 3)	-	401	1,401
Total REVENUES	242,999	233,590	144,120
EXPENSES- Directly Incurred (Note 2)			
Program			
Alberta Science and Research Authority			
Alberta Agricultural Research Institute	8,875	9,117	9,732
Alberta Energy Research Institute	6,940	6,855	8,963
Alberta Forestry Research Institute	2,260	1,775	2,012
Alberta Research Council Inc.	73,981	60,380	61,925
iCORE Inc.	10,000	10,051	5,845
Science and Research Investments Program	36,722	38,067	38,818
Technology Commercialization Initiatives	3,675	3,530	2,277
Operations and Policy Implementation	6,180	6,229	5,615
Corporate Information & Communications Technology	51,773	56,122	48,700
Alberta SuperNet	4,000	3,090	2,054
Ministry Support Services	4,335	4,219	4,188
Total Program Expenses	208,741	199,435	190,129
Other Expenses			
Valuation Adjustment - Provision for Vacation Pay	-	110	382
Expenses from Discontinued Operations (Note 3)	-	1,560	2,243
Total Other Expenses	-	1,670	2,625
Total EXPENSES	208,741	201,105	192,754
OTHER			
Loss on Disposal of Capital Assets of Discontinued Operations (Note 3)	-	1,035	-
Loss on Disposal of Capital Assets	-	26	414
Total OTHER	-	1,061	414
NET OPERATING RESULTS	$ 34,258	$ 31,424	$ (49,048)

The accompanying notes and schedules are part of these financial statements.

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2003

(In thousands)

	2003	2002
ASSETS		
Cash (Note 4)	$ 25,839	$ 19,841
Restricted Cash (Note 4)	1,295	1,196
Marketable Securities (Note 5)	762	151
Advances	-	3,900
Accounts Receivable (Note 6)	12,340	17,083
	40,236	42,171
Long Term Investments (Note 7)	250	429
Capital Assets (Note 8)	162,418	83,690
	$ 202,904	$ 126,290
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 75,574	$ 27,901
Grants Payable	2,542	2,435
Holdback Liability	2,295	1,334
Unearned Revenue	3,502	3,016
Deferred Contributions (Note 9)	1,295	1,196
Current Portion of Long Term Debt (Note 10)	401	395
	85,609	36,277
Long Term Debt (Note 10)	1,145	1,555
Accumulated Provision for Project Abandonment (Note 11)	1,200	1,467
	87,954	39,299
NET ASSETS		
Net Assets, Beginning of Year	$ 86,991	$ 43,559
Net Operating Results	31,424	(49,048)
Net Transfers (to) from General Revenue	(3,465)	92,480
Net Assets, End of Year	114,950	86,991
	$ 202,904	$ 126,290

The accompanying notes and schedules are part of these financial statements.

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 2003

	(In thousands)	
	2003	2002
OPERATING TRANSACTIONS		
Net Operating Results	$ 31,424	$ (49,048)
Non-Cash Items:		
Amortization of Capital Assets	8,564	7,765
Loss on Disposal of Capital Assets	1,061	414
Valuation Adjustments	1,670	382
Purchase of Marketable Securities	(432)	(105)
Proceeds from Sale of Marketable Securities	-	131
	42,287	(40,461)
Decrease / (Increase) in Advances	3,900	(3,900)
Decrease / (Increase) in Accounts Receivable	4,743	(2,829)
Increase in Accounts Payable and Accrued Liabilities	46,003	779
Increase in Grants Payable	107	1,799
Increase in Holdback Liability	961	1,317
Increase / (Decrease) in Unearned Revenue	486	(1,935)
Increase in Deferred Contributions	99	440
Increase in Current Portion of Long Term Debt	6	5
Decrease in Accumulated Provision for Project Abandonment	(267)	(2)
CASH PROVIDED (USED) BY OPERATING TRANSACTIONS [1]	98,325	(44,787)
INVESTING TRANSACTIONS		
Increase in Restricted Cash	(99)	(440)
Purchases of Long Term Investments	-	(179)
Repayment of Long Term Debt	(410)	(401)
Purchases of Capital Assets (Schedule 2)	(90,254)	(46,097)
Capital Assets Transferred to Other Ministries	1,837	5,759
Capital Assets Transferred from Other Ministries	-	(629)
Proceeds from Disposal of Capital Assets [1]	64	49
CASH USED BY INVESTING TRANSACTIONS	(88,862)	(41,938)
FINANCING TRANSACTIONS		
Net Transfers (to) from General Revenue	(3,465)	92,480
CASH PROVIDED BY FINANCING TRANSACTIONS	(3,465)	92,480
NET CASH PROVIDED	5,998	5,755
CASH, BEGINNING OF YEAR	19,841	14,086
CASH, END OF YEAR	$ 25,839	$ 19,841

The accompanying notes and schedules are part of these financial statements.

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[1] Cash used by operating transactions includes $2,194 from discontinued operations (2002 - $842).
Proceeds from Disposal of Capital Assets includes $56 from discontinued operations (2002 - nil).

MINISTRY OF INNOVATION AND SCIENCE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

Note 1 Authority and Purpose

The Government Organization Act and its regulations have designated the Minister of Innovation and Science as responsible for various Acts. To fulfil these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Innovation and Science.

Organization:	Authority:
Department of Innovation and Science	Government Organization Act
Alberta Science and Research Authority	Alberta Science and Research Authority Act
Alberta Research Council Inc. including its wholly owned subsidiary C-FER Technologies (1999) Inc.	Alberta Science and Research Authority Act
iCORE Inc.	Alberta Science and Research Authority Act

The purpose of the Ministry of Innovation and Science (the Ministry) is to

- enhance the contribution of science, research, development and commercialization to the sustainable prosperity and quality of life of all Albertans; and
- provide strategic leadership and direction in the innovative and cost-effective use of Information Communications and Technology to improve the efficiency of government program delivery and administration.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

a) Reporting Entity

The reporting entity is the Ministry of Innovation & Science (Ministry) and includes the operations of the Department of Innovation & Science and the Alberta Science and Research Authority, including its subsidiaries the Alberta Research Council Inc. and iCORE Inc. The financial statements for the individual entities provide more detailed information about the operations of each entity.

The Alberta Heritage Foundation for Science and Engineering Research (AHFSER) and the Alberta Heritage Foundation for Medical Research (AHFMR) and its subsidiary the Alberta Foundation for Health Research (AFHR) are required to forward a copy of their annual reports to the Minister for tabling in the Legislature. However, the financial statements of AHFSER, AHFMR and AFHR are not consolidated in these financial statements.

b) Method of Consolidation

The activities of the entities within the Ministry are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Revenue and expense transactions, investing and financing transactions, and related asset and liability accounts between consolidated entities have been eliminated.

c) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue.

Royalties and licensing fee revenues are recognized when the amounts can be reasonably estimated and there is reasonable assurance of collectability of proceeds.

Internal Government Transfers - Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Dedicated Revenue - Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Ministry may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

c) Basis of Financial Reporting (cont'd)

Expenses
Grants – Grants are recorded as expenses when authorized and when all eligibility conditions have been satisfied.

Directly Incurred - Directly incurred expenses are those costs the Ministry has primary responsibility and accountability for, as reflected in the government's budget documents.

In addition to program expenses like salaries, supplies, etc., directly incurred expenses also include:

- amortization of capital assets.
- pension costs, which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Incurred by Others - Services contributed by other entities in support of Ministry operations are disclosed in Schedule 4.

Assets - Financial assets of the Ministry include financial claims, such as advances to and receivables from other organizations, employees and other individuals.

The fair values of marketable securities are estimated to approximate their carrying values.

Assets acquired by right are not included in these statements. Capital assets of the Ministry are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets.

Expenses for patents owned by the Ministry as a result of research activity are not capitalized due to the uncertain value of benefits that may accrue to the Ministry.

Expenses on the acquisition or development of other intangible assets including intellectual capital are not capitalized as currently there is no acceptable methodology for measuring the value of future benefits accruing to the Ministry.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

c) Basis of Financial Reporting (cont'd)

Liabilities - Liabilities represent all financial claims payable by the Ministry at fiscal year end. Under certain joint participation agreements the Ministry will incur certain costs when projects are abandoned.

Net Assets - Net assets represent the difference between the value of assets held by the Ministry and its liabilities.

Valuation of Financial Assets and Liabilities - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, accountable advances, accounts payable, and accrued liabilities are estimated to approximate their book values.

The fair value of long-term investments approximate cost due to the long-term nature of the investments.

The fair value of long-term debt approximates its carrying value as interest rates approximate the market rate.

Note 3 Discontinued Operations

(In thousands)

On November 4, 2002, Alberta Research Council Inc. discontinued and sold the assets of its ZiMARC business unit.

The loss on discontinued operations is as follows:

	2003	2002
Revenue	$ 401	$ 1,401
Expense	1,560	2,243
Operating loss from discontinued operations	(1,159)	(842)
Loss on disposal of capital assets	(1,035)	-
	$ (2,194)	$ (842)

Schedule 3 presents operating results without segregating discontinued operations in order to provide a comparison to budget.

Note 4 Cash

(In thousands)

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Minister of Finance administers the Fund. All cash receipts of the Department of Innovation and Science are deposited into the Fund and all cash disbursements made by the Department of Innovation and Science are paid from the Fund. Net transfer to/from General Revenues is the difference between all cash receipts and all cash disbursements made.

Cash consists primarily of the Alberta Science and Research Authority and its subsidiaries deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in short-term and mid-term fixed income securities with a maximum term to maturity of three years. Due to the short-term nature of the CCITF investments, the carrying value approximates fair value. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates.

Interest of $931 (2002 - $752) earned on the cash balance of the Ministry's remaining CCITF accounts has been credited to the accounts and is reported in these financial statements.

The Ministry has a Restricted Cash balance of $1,295 (2002 - $1,196) related to specific research project and programs as disclosed in Note 9.

Note 5 Marketable Securities

(In thousands)

As at March 31, 2003, the Ministry had marketable securities of $762 (2002 - $151). The market value of the marketable securities was $984 (2002 - $280). The net realizable value of the investment in shares of a private company approximates cost.

Note 6 Accounts Receivable

(In thousands)

	2003			2002
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 11,183	$ 783	$ 10,400	$ 9,287
Federal Government	418	-	418	1,366
Accountable Advances	4	-	4	9
Alberta Government Departments and Agencies	1,518	-	1,518	6,421
	$ 13,123	$ 783	$ 12,340	$ 17,083

Accounts receivable are unsecured and non-interest bearing.

Note 7 Long-Term Investments

(In thousands)

	2003	2002
Investment in shares of public companies	$ 1,315	$ 951
Investment in shares of private companies	250	429
	1,565	1,380
Provision for impairment in value	(1,315)	(951)
	$ 250	$ 429

The net realizable value of the investments in shares of a private company approximates carrying value.

During the year, the Alberta Research Council Inc. provided services in exchange for shares and warrants (see Note 13).

Note 8 Capital Assets

(In thousands)

		2003			2002
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	Indefinite	$ 566	$ -	$ 566	$ 566
Building	30 years	2,107	307	1,800	1,866
Equipment - SuperNet (1)	3 to 20 years	124,350	-	124,350	38,994
Equipment - Other (2)	3 to 20 years	53,454	39,293	14,161	16,330
Computer Hardware / Software (3)	3 to 5 years	38,658	23,454	15,204	18,736
Other	25 years	10,155	3,818	6,337	7,198
		$ 229,290	$ 66,872	$ 162,418	$ 83,690

(1) Capital costs are recorded as work in progress.

(2) Equipment also includes furniture and fixtures.

(3) Includes the Alberta Government Integrated Management Information System (IMAGIS), which includes all development costs incurred by the Ministry in the implementation of this government-wide system. The cost of each module is amortized over a 10-year useful life. Updates to newer versions of PeopleSoft, the IMAGIS software platform, are expensed in the year incurred.

Note 9 Deferred Contributions
(In thousands)

Deferred Contributions $1,295 (2002- $1,196) represents unspent contributions that are subject to externally imposed restrictions related to specific research projects or programs.

	2003	2002
Alberta Agricultural Research Institute Development Programs	$ 751	$ 796
Alberta Research Council Inc. Canadian International Development Agency Project	544	300
iCORE Inc. Industrial Chair Establishment Grant Program	-	100
	$ 1,295	$ 1,196

Note 10 Long Term Debt
(In thousands)

	2003	2002
5.45% mortgage, payable in monthly instalments of $41 including interest, due October 1, 2004.	$ 1,546	$ 1,920
Bank term loan, at prime, payable in monthly instalments of $4 plus interest, due October 12, 2002.	-	30
	1,546	1,950
Less current portion	401	395
	$ 1,145	$ 1,555

A demand debenture with

- a fixed charge over land, building and equipment with a net book value of $3,247 (2002 - $3,339),
- a floating charge over other assets,
- an assignment of insurance proceeds and
- a general security agreement registered under the Personal Property Security Act creating a floating charge over all property and assets, both present and future

have been pledged as collateral for the mortgage and term loan.

Note 10 Long Term Debt (cont'd)

(In thousands)

The following estimated principal repayments during the next five years and in total are based on the assumption that the mortgage will be renewed under similar terms and conditions:

Year	Repayments
2004	$ 401
2005	423
2006	447
2007	275
	$ 1,546

Note 11 Accumulated Provision for Future Project Abandonment

(In thousands)

Under joint participation agreements, the Ministry will incur certain costs when wells and experimental projects are abandoned. Management's estimate of costs for future abandonment is $1,200 (2002 - $1,467).

Note 12 Commitments

(In thousands)

As at March 31, 2003, the Ministry had the following commitments:

	2003	2002
SuperNet	$ 68,650	$ 154,006
Research Grants	96,975	69,670
Telecommunications Service Contracts (1)	135,477	160,368
General Service Contracts	6,703	1,373
	$ 307,805	$ 385,417

(1) The Government of Alberta's commitment to Bell West for telecommunication services is $117,602 (2002 - $139,982), over a ten year term.

Note 12 Commitments (cont'd)

(In thousands)

a) Leases

The Ministry leases certain equipment under operating leases that expire on various dates to 2007. The aggregate amount payable for the unexpired terms of these leases is as follows:

Year	Amount
2004	$ 92
2005	71
2006	46
2007	10
	$ 219

Note 13 Warrants and Options

(In thousands)

As part of the consideration for granting various licenses, the Ministry (through the Alberta Research Council Inc.) has received a number of options and warrants to acquire common shares of public companies. The following options and warrants have been recorded at nominal value:

	2003		2002	
	Exercise Price	Market Value [(1)]	Exercise Price	Market Value [(1)]
Options and warrants which expire in 2003	$ -	$ -	$ 510	$ 218
Warrants which expire in 2004	1,315	115	951	300
	$ 1,315	$ 115	$ 1,461	$ 518

(1) Market value represents the market value of shares which would be acquired upon exercise of options and warrants.

These stock options and warrants are subject to market risk. As a result, the value of these financial instruments will fluctuate as a result of changes in the market price.

Note 14 Contingencies
(In thousands)

At March 31, 2003, the Ministry is a defendant in two legal claims (2002 - three legal claims). All of these claims have specified amounts totalling $52,200 (2002 - $52,633). The resulting loss, if any, for these claims cannot be determined.

Note 15 Defined Benefit Plans
(In thousands)

The Ministry participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $3,019 for the year ending December 31, 2002 (2002 - $2,819).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of $301,968 (2001 - surplus $5,338) and the Public Service Pension Plan reported an actuarial deficiency of $175,528 (2001 - actuarial surplus $320,487). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $6,472 (2001 - actuarial deficiency $399).

The Ministry also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2003, the Bargaining Unit Plan reported an actuarial deficiency of $14,434 (2002 - $8,646) and the Management, Opted Out and Excluded Plan an actuarial deficiency of $3,053 (2002 - $2,656). The expense for these two plans is limited to employer's annual contributions for the year.

Note 16 Comparative Figures

Certain 2002 figures have been reclassified to conform to the 2003 presentation.

Note 17 Approval of Financial Statements

The Deputy Minister of Innovation and Science and the Chief Financial Officer for the Ministry of Innovation and Science approved the financial statements.

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT FOR THE YEAR ENDED MARCH 31, 2003

Schedule 1

(In thousands)

	2003		2002
	Budget	Actual	Actual
OBJECT			
Salaries, Wages and Employee Benefits	$ 60,251	$ 54,268	$ 54,800
Supplies and Services	71,673	72,952	66,810
Grants	67,826	63,864	61,704
Financial Transactions and Other	103	1,457	1,675
Amortization of Capital Assets	8,888	8,564	7,765
Total VOTED AND STATUTORY EXPENSES	$ 208,741	$ 201,105	$ 192,754

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
OPERATIONS BY ENTITY
AS AT MARCH 31, 2003

Schedule 2

(In thousands)

	2003				2002
	Estimates	Voted Supplementary	Authorized Budget	Actual	Actual
REVENUES					
Department	$ 194,136	$ -	$ 194,136	$ 195,986	$ 99,733
Alberta Science and Research Authority	140,460	-	140,460	125,370	130,621
Consolidation Adjustments	(91,597)	-	(91,597)	(87,766)	(86,234)
Total REVENUES	242,999	-	242,999	233,590	144,120
EXPENSES					
Program					
Voted					
Department	156,750	-	156,750	156,163	146,174
Statutory					
Department	-	-	-	69	380
Alberta Science and Research Authority	143,588	-	143,588	132,639	132,434
Consolidation Adjustments	(91,597)	-	(91,597)	(87,766)	(86,234)
Total Program Expenses	208,741	-	208,741	201,105	192,754
OTHER					
Loss on Disposal of Capital Assets	-	-	-	1,061	414
Total OTHER	-	-	-	1,061	414
NET OPERATING RESULTS	$ 34,258	$ -	$ 34,258	$ 31,424	$ (49,048)
CAPITAL INVESTMENT					
Voted					
Department	123,699	-	123,699	88,097	43,909
Statutory					
Alberta Science and Research Authority	4,296	-	4,296	2,157	2,188
Total CAPITAL INVESTMENT	$ 127,995	$ -	$ 127,995	$ 90,254	$ 46,097

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS SUPPLEMENTARY INFORMATION - OPERATING RESULTS FOR THE YEAR ENDED MARCH 31, 2003

Schedule 3

(In thousands)

	2003		
	Per Consolidated Statement of Operations		Actual (Gross Basis)
	Budget	Actual	
REVENUES			
Internal Government Transfers	$ 182,644	$ 182,644	$ 182,644
Transfers from Government of Canada	2,000	2,816	2,816
Investment Income	840	931	931
Other Revenue	57,515	46,798	47,199
Revenue from Discontinued Operations	-	401	-
Total REVENUES	242,999	233,590	233,590
EXPENSES- Directly Incurred			
Program			
Alberta Science and Research Authority			
Alberta Agricultural Research Institute	8,875	9,117	9,117
Alberta Energy Research Institute	6,940	6,855	6,855
Alberta Forestry Research Institute	2,260	1,775	1,775
Alberta Research Council Inc.	73,981	60,380	61,940
iCORE Inc.	10,000	10,051	10,051
Science and Research Investments Program	36,722	38,067	38,067
Technology Commercialization Initiatives	3,675	3,530	3,530
Operations and Policy Implementation	6,180	6,229	6,229
Corporate Information & Communications Technology	51,773	56,122	56,122
Alberta SuperNet	4,000	3,090	3,090
Ministry Support Services	4,335	4,219	4,219
Total Program Expenses	208,741	199,435	200,995
Other Expenses			
Valuation Adjustment - Provision for Vacation Pay	-	110	110
Expenses from Discontinued Operations	-	1,560	-
Total Other Expenses	-	1,670	110
Total EXPENSES	208,741	201,105	201,105
OTHER			
Loss on Disposal of Capital Assets of Discontinued Operations	-	1,035	-
Loss on Disposal of Capital Assets	-	26	1,061
Total OTHER	-	1,061	1,061
NET OPERATING RESULTS	$ 34,258	$ 31,424	$ 31,424

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS

Schedule 4

RELATED PARTY TRANSACTIONS
FOR THE YEAR ENDED MARCH 31, 2003

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Ministry had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Other Entities	
	2003	2002
REVENUES		
Lottery Fund	$ 182,644	$ 90,838
Information and Communications Technology	13,276	8,650
Grants	1,734	2,684
	$ 197,654	$ 102,172
EXPENSES - DIRECTLY INCURRED		
Supplies and Services	$ 7,486	$ 3,170
Grants	847	910
	$ 8,333	$ 4,080
CAPITAL ASSETS TRANSFERRED TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 1,837	$ 5,130
RECEIVABLE DUE FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 1,949	$ 188
PAYABLES DUE TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 236	$ -

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service.

(In thousands)

	Other Entities	
	2003	2002
EXPENSES - INCURRED BY OTHERS		
Accommodations from the Ministry of Infrastructure	$ 16,609	$ 13,024
Legal services from the Ministry of Justice	152	217
	$ 16,761	$ 13,241

MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
ALLOCATED COSTS
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 5

(In thousands)

	2003					2002
		Expenses Incurred by Others		Valuation Adjustment		
	Expenses [1]	Accommodation Costs [2]	Legal Costs [3]	Vacation Pay [4]	Total	Total
Program						
Alberta Science and Research Authority (ASRA)						
Alberta Agricultural Research Institute	$ 9,117	$ -	$ -	$ -	$ 9,117	$ 9,732
Alberta Energy Research Institute	6,855	-	-	-	6,855	8,963
Alberta Forestry Research Institute	1,775	-	-	-	1,775	2,012
Alberta Research Council Inc.	61,940	15,524	-	-	77,464	75,632
iCORE Inc.	10,051	38	-	-	10,089	5,872
Science and Research Investments Program	38,067	-	-	-	38,067	38,818
Technology Commercialization Initiatives	3,530	-	-	-	3,530	2,277
Operations and Policy Implementation	6,229	319	77	42	6,667	6,141
Corporate Information & Communications Technology	56,122	573	40	98	56,833	49,694
Alberta SuperNet	3,090	11	-	47	3,148	2,167
Ministry Support Services	4,219	144	35	(77)	4,321	4,687
	$ 200,995	$ 16,609	$ 152	$ 110	$ 217,866	$ 205,995

[1] Expenses - Directly Incurred as per Schedule 3, excluding valuation adjustments.

[2] Costs shown for Accommodation provided by the Ministry of Infrastructure.

[3] Costs shown for Legal Services provided by the Ministry of Justice.

[4] Vacation Pay as per the Consolidated Statement of Operations.

DEPARTMENT OF INNOVATION AND SCIENCE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

Auditor's Report

Statement of Operations

Statement of Financial Position

Statement of Changes in Financial Position

Notes to the Financial Statements

Schedule of Revenues

Schedule of Dedicated Revenue Initiatives

Schedule of Expenses - Directly Incurred Detailed by Object

Schedule of Budget

Schedule of Comparison of Expenses - Directly Incurred and Capital Investments by Element to Authorized Budget

Schedule of Salary and Benefits Disclosure

Schedule of Related Party Transactions

Schedule of Allocated Costs

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Innovation and Science

I have audited the statement of financial position of the Department of Innovation and Science as at March 31, 2003 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Department's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Department of Innovation and Science is required to follow the corporate government accounting policies and reporting practices established by Alberta Finance, including the following policy that is an exception from Canadian generally accepted accounting principles:

> Capitalization of Assets
>
> Capital assets costing less than $15,000 have been expensed in the year acquired and have not been recognized as assets in the accompanying statement of financial position. Consequently, the annual amortization of these assets has not been recognized in the statement of operations. In my opinion, an amount of approximately $3,045,098 representing the net book value of the assets as at March 31, 2003, should be recognized as capital assets. The effect of this understatement of capital assets is to understate expenses by approximately $1,787,225 for the year ended March 31, 2003.

In my opinion, except for the effects of the matter discussed in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 23, 2003

DEPARTMENT OF INNOVATION AND SCIENCE

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2003

(In thousands)

	2003		2002
	Budget (Schedule 4)	Actual	Actual
REVENUES (Note 2 and Schedules 1 and 2)			
Internal Government Transfers	$ 182,644	$ 182,644	$ 90,838
Other Revenue	11,492	13,342	8,895
Total REVENUES	194,136	195,986	99,733
EXPENSES- Directly Incurred (Note 2 and Schedules 3, 4 and 5)			
Voted			
Ministry Support Services	4,335	4,219	4,188
Corporate Information and Communications Technology	55,773	59,212	50,754
Research and Development	96,642	92,732	91,231
Total Voted Expenses	156,750	156,163	146,173
Statutory			
Provision for Vacation Pay	-	69	380
Total Statutory Expenses	-	69	380
Total EXPENSES	156,750	156,232	146,553
OTHER			
Loss on Disposal of Capital Assets	-	26	414
Total OTHER	-	26	414
NET OPERATING RESULTS	$ 37,386	$ 39,728	$ (47,234)

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2003

(In thousands)

	2003	2002
ASSETS		
Cash	$ -	$ -
Accounts Receivable (Note 3)	2,293	2,281
Accountable Advances	4	9
Capital Assets (Note 4)	145,615	65,215
	$ 147,912	$ 67,505
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 53,997	$ 10,813
Holdback Liability	2,294	1,334
	56,291	12,147
NET ASSETS		
Net Assets, Beginning of Year	$ 55,358	$ 10,112
Net Operating Results	39,728	(47,234)
Net Transfers (to) from General Revenues	(3,465)	92,480
Net Assets, End of Year	91,621	55,358
	$ 147,912	$ 67,505

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 2003

	(In thousands)	
	2003	2002
OPERATING TRANSACTIONS		
Net Operating Results	$ 39,728	$ (47,234)
Non-Cash Items:		
Amortization of Capital Assets	5,834	4,930
Loss on Disposal of Capital Assets	26	414
Provision for Vacation Pay	69	380
	45,657	(41,510)
Increase in Accounts Receivable	(12)	(1,887)
Decrease / (Increase) in Accountable Advances	5	(4)
Increase / (Decrease) in Accounts Payable and Accrued Liabilities	43,115	(11,659)
Increase in Holdback Liability	960	1,334
CASH PROVIDED (USED) BY OPERATING TRANSACTIONS	89,725	(53,726)
INVESTING TRANSACTIONS		
Purchases of Capital Assets (Schedule 5)	(88,097)	(43,909)
Capital Assets Transferred to Other Ministries	1,837	5,759
Capital Assets Transferred from Other Ministries	-	(629)
CASH USED BY INVESTING TRANSACTIONS	(86,260)	(38,779)
FINANCING TRANSACTIONS		
Net Transfers (to) from General Revenues	(3,465)	92,480
CASH (USED) / PROVIDED BY FINANCING TRANSACTIONS	(3,465)	92,480
NET CASH PROVIDED (USED)	-	(25)
CASH, BEGINNING OF YEAR	-	25
CASH, END OF YEAR	$ -	$ -

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

Note 1 Authority and Purpose

The Department of Innovation and Science operates under the authority of the Government Organization Act, Chapter G-10, Revised Statutes of Alberta 2000.

The purpose of the Department of Innovation and Science (Department) is to

- enhance the contribution of science, research, development and commercialization to the sustainable prosperity and quality of life of all Albertans; and
- provide strategic leadership and direction in the innovative and cost-effective use of Information Communications and Technology to improve the efficiency of government program delivery and administration.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

a) Reporting Entity

The reporting entity is the Department of Innovation and Science, which is part of the Ministry of Innovation and Science and for which the Minister of Innovation and Science is accountable. The other entity reporting to the Minister is the Alberta Science and Research Authority. The activity of the Alberta Science and Research Authority is not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

a) Reporting Entity (cont'd)

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net transfers to/from General Revenues is the difference between all cash receipts and all cash disbursements made.

b) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue.

Internal Government Transfers - Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Dedicated Revenue - Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Department may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program. Schedule 2 discloses information on the Department's dedicated revenue initiative.

Expenses

Grants - Grants are recorded as expenditures when authorized and when all eligibility conditions have been satisfied.

Directly Incurred - Directly incurred expenses are those costs the Department has primary responsibility and accountability for, as reflected in the Government's budget documents.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

b) Basis of Financial Reporting (cont'd)

Expenses (cont'd)
In addition to program expenses like salaries, supplies, etc., directly incurred expenses also include:

- amortization of capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Incurred by Others - Services contributed by other entities in support of the Department's operations are disclosed in Schedule 8.

Assets - Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $100,000 and the threshold for all other capital assets is $15,000.

Liabilities - Liabilities represent all financial claims payable by the Department at fiscal year end.

Net Assets - Net assets represent the difference between the value of assets held by the Department and its liabilities.

Valuation of Financial Assets and Liabilities - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, advances, accounts payable and accrued liabilities are estimated to approximate their book values.

Note 3 Accounts Receivable

(In thousands)

	2003 Gross Amount	2003 Allowance for Doubtful Accounts	2003 Net Realizable Value	2002 Net Realizable Value
Commercial	$ 1,289	$ -	$ 1,289	$ 2,087
Alberta Government Departments and Agencies	1,004	-	1,004	194
	$ 2,293	$ -	$ 2,293	$ 2,281

Accounts receivable are unsecured and non-interest bearing.

Note 4 Capital Assets

(In thousands)

	Estimated Useful Life	2003 Cost	2003 Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Equipment - Supernet [1]	3 to 20 years	$ 124,350	$ -	$ 124,350	$ 38,994
Equipment - Other [2]	5 to 10 years	18,213	12,023	6,190	7,640
Computer Hardware and Software[3]	3 to 10 years	35,512	20,437	15,075	18,581
		$ 178,075	$ 32,460	$ 145,615	$ 65,215

(1) Capital costs are recorded as work-in-progress.

(2) Equipment also includes furniture and fixtures.

(3) Includes the Alberta Government Integrated Management Information System (IMAGIS), which includes all development costs incurred by the Department in the implementation of this government-wide system. The cost of each module is amortized over a 10-year useful life. Updates to newer versions of PeopleSoft, the IMAGIS software platform, are expensed in the year incurred.

Note 5 Commitments

(In thousands)

As at March 31, 2003, the Department has the following commitments:

	2003	2002
SuperNet	$ 68,650	$ 154,006
Telecommunications Service Contracts [1]	135,477	160,368
General Service Contracts	6,703	1,373
	$ 210,830	$ 315,747

[1] The Government of Alberta's commitment to Bell West for telecommunication services is $117,602 (2002 - $139,982), over a ten year term.

Note 6 Defined Benefit Plans

(In thousands)

The Department participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,180 for the year ended March 31, 2003 (2002 - $1,107).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of $301,968 (2001 - surplus $5,338) and the Public Service Pension Plan reported an actuarial deficiency of $175,528 (2001 - actuarial surplus $320,487). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $6,472 (2001 - actuarial deficiency $399).

The Department also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2003, the Bargaining Unit Plan reported an actuarial deficiency of $14,434 (2002 - $8,646) and the Management, Opted Out and Excluded Plan an actuarial deficiency of $3,053 (2002 - $2,656). The expense for these two plans is limited to employer's annual contributions for the year.

Note 7 Comparative Figures

Certain 2002 figures have been reclassified to conform to the 2003 presentation.

Note 8 Approval of Financial Statements

The Deputy Minister and the Chief Financial Officer approved the financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE

SCHEDULE TO FINANCIAL STATEMENTS REVENUES FOR THE YEAR ENDED MARCH 31, 2003

Schedule 1

(In thousands)

	2003 Budget	2003 Actual	2002 Actual
Contribution from Lottery Fund	$ 182,644	$ 182,644	$ 90,838
Other Revenue	11,492	13,342	8,895
Total REVENUES	$ 194,136	$ 195,986	$ 99,733

SCHEDULE TO FINANCIAL STATEMENTS DEDICATED REVENUE INITIATIVES FOR THE YEAR ENDED MARCH 31, 2003

Schedule 2

(In thousands)

	2003 Authorized Dedicated Revenues	Actual Dedicated Revenues	(Shortfall) / Excess
Corporate Information and Communications Technology [1]	$ 11,492	$ 13,276	$ 1,784

[1] The Department receives revenue from Ministries to recover the cost of providing cross-government services for finance and human resource applications.

SCHEDULE TO FINANCIAL STATEMENTS EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT FOR THE YEAR ENDED MARCH 31, 2003

Schedule 3

(In thousands)

	2003 Budget	2003 Actual	2002 Actual
VOTED:			
Salaries, Wages and Employee Benefits	$ 15,565	$ 15,646	$ 14,966
Supplies and Services	43,212	46,737	39,581
Grants	92,470	87,894	86,614
Financial Transactions and Other	72	52	82
Amortization of Capital Assets	5,431	5,834	4,930
Total VOTED EXPENSES	$ 156,750	$ 156,163	$ 146,173

DEPARTMENT OF INNOVATION AND SCIENCE

SCHEDULE TO FINANCIAL STATEMENTS
BUDGET
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 4

(In thousands)

	2003				
	Estimates	Adjustment	Budget	Authorized Supplementary	Authorized Budget
REVENUES:					
Internal Government Transfers	$ 182,644	$ -	$ 182,644	$ -	$ 182,644
Other Revenue	11,492	-	11,492	-	11,492
Total REVENUES	194,136	-	194,136	-	194,136
EXPENSES - DIRECTLY INCURRED					
Voted					
Ministry Support Services	4,335	-	4,335	-	4,335
Corporate Information and Communications Technology	55,773	-	55,773	-	55,773
Research and Development	96,642	-	96,642	-	96,642
Total Voted Expenses	156,750	-	156,750	-	156,750
Statutory					
Provision for Vacation Pay	-	-	-	-	-
Total Statutory Expenses	-	-	-	-	-
Total EXPENSES	156,750	-	156,750	-	156,750
OTHER					
Loss on Disposal of Capital Assets	-	-	-	-	-
Total OTHER	-	-	-	-	-
NET OPERATING RESULTS	$ 37,386	$ -	$ 37,386	$ -	$ 37,386
CAPITAL INVESTMENT	$ 123,699	$ -	$ 123,699	$ -	$ 123,699

DEPARTMENT OF INNOVATION AND SCIENCE

SCHEDULE TO FINANCIAL STATEMENTS

Schedule 5

COMPARISON OF EXPENSES - DIRECTLY INCURRED AND CAPITAL INVESTMENTS BY ELEMENT TO AUTHORIZED BUDGET
FOR THE YEAR ENDED MARCH 31, 2003

(In thousands)

		2003		
		Authorized Budget	Actual [1]	Unexpended / (Over Expended)
VOTED EXPENSES AND CAPITAL INVESTMENTS				
Program 1	Ministry Support Services			
1.0.1	Minister's Office	$ 320	$ 316	$ 4
1.0.2	Deputy Minister's Office	315	314	1
1.0.3	Corporate Services	2,965	2,866	99
1.0.4	Communications	735	723	12
	Program Total	4,335	4,219	116
Program 2	Corporate Information and Communications Technology			
2.1	Alberta Supernet			
2.1.1	Network Infrastructure and Management			
	- Operating Expense funded by Lotteries	4,000	3,090	910
	- Capital Investment funded by Lotteries	117,800	85,357	32,443
	Total Sub-program	121,800	88,447	33,353
2.2	Government Systems			
2.2.1	Information Technology Services			
	- Operating Expense	44,522	48,304	(3,782)
	- Capital Investment	5,899	2,740	3,159
2.2.2	Office of the Chief Information Officer	1,820	2,021	(201)
2.2.3	Amortization	5,431	5,797	(366)
2.2.4	Dedicated Revenue	-	-	-
	Total Sub-program	57,672	58,862	(1,190)
	Program Total	179,472	147,309	32,163
Program 3	Research and Development			
3.0.1	Operations and Policy Implementation	5,045	5,035	10
3.0.2	Grant to the Alberta Science and Research Authority			
	- Operating Expense	30,753	30,753	-
	- Operating Expense Funding by Lotteries	60,844	56,944	3,900
	Program Total	96,642	92,732	3,910
Total VOTED EXPENSES AND CAPITAL INVESTMENTS		$ 280,449	$ 244,260	$ 36,189
Program Operating Expense		91,906	96,129	(4,223)
Program Operating Expense Funded by Lotteries		64,844	60,034	4,810
		156,750	156,163	587
Program Capital Investment		5,899	2,740	3,159
Program Capital Investment Funded by Lotteries		117,800	85,357	32,443
		123,699	88,097	35,602
Total VOTED EXPENSES AND CAPITAL INVESTMENTS		$ 280,449	$ 244,260	$ 36,189

[1] Achievement bonuses of $633 were incurred during the fiscal year. The bonuses are reported in each program area.

DEPARTMENT OF INNOVATION AND SCIENCE

SCHEDULE TO FINANCIAL STATEMENTS
SALARY AND BENEFITS DISCLOSURE
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 6

	2003			2002
CURRENT EXECUTIVES	Salary [1]	Benefits and Allowances [2]	Total	Total
Deputy Minister [3]	$ 176,573	$ 63,588	$ 240,161	$ 203,343
Other Senior Official				
Chief Information Officer	132,329	16,983	149,312	144,635
Executives:				
Research [4]	141,461	50,063	191,524	145,797
Policy Development and Coordination [5]	140,635	44,554	185,189	148,871
Information Management and Technology Services	137,336	33,517	170,853	145,359
Research and Technology Commercialization [6]	120,382	33,773	154,155	130,716
Chief Financial Officer [7]	115,819	32,767	148,586	121,404
Contract and Corporate Services [8]	-	-	-	19,538

NOTES:

Prepared in accordance with Treasury Board Directive 12/98

(1) Salary includes regular base pay, bonuses and lump sum payments.

(2) Benefits and allowances include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long term disability plans, WCB premiums, professional memberships and tuition fees.

(3) Automobile provided, no dollar amount included in benefits and allowances figures. Benefits and allowances include vacation payout of $14,141 (2002 - nil).

(4) Benefits and allowances include vacation payout of $32,008 (2002 - nil).

(5) Position was created on April 27, 2001. Benefits and allowances include vacation payout of $9,028 (2002 - $6,527).

(6) Benefits and allowances include vacation payout of $6,750 (2002 - $2,078).

(7) This position was created on May 22, 2001. Benefits and allowances include vacation payout of $4,721 (2002 - $15,214).

(8) Incumbent transferred to Alberta Environment effective May 22, 2001 and position was eliminated.

DEPARTMENT OF INNOVATION AND SCIENCE

SCHEDULE TO FINANCIAL STATEMENTS
RELATED PARTY TRANSACTIONS
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 7

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Department had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2003	2002	2003	2002
REVENUES				
Lottery Fund	$ -	$ -	$ 182,644	$ 90,838
Information and Communications Technology	-	-	13,276	8,650
	$ -	$ -	$ 195,920	$ 99,488
EXPENSES - DIRECTLY INCURRED				
Grant to Alberta Research and Science Authority	$ 87,697	$ 86,162	$ -	$ -
Charges from Alberta Corporate Service Centre	-	-	7,192	3,110
Charges from Department of Infrastructure	-	-	16	28
	$ 87,697	$ 86,162	$ 7,208	$ 3,138
CAPITAL ASSETS TRANSFERRED TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ -	$ -	$ 1,837	$ 5,130
RECEIVABLE DUE FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 418	$ -	$ 586	$ 188
PAYABLES DUE TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 103	$ 25	$ 4	$ -

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are disclosed in Schedule 8.

(In thousands)

	Entities in the Ministry		Other Entities	
	2003	2002	2003	2002
EXPENSES - INCURRED BY OTHERS				
Accommodations from Alberta Infrastructure	$ -	$ -	$ 998	$ 1,481
Legal services from Alberta Justice	-	-	132	201
	$ -	$ -	$ 1,130	$ 1,682

DEPARTMENT OF INNOVATION AND SCIENCE

SCHEDULE TO FINANCIAL STATEMENTS
ALLOCATED COSTS
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 8

(In thousands)

	2003					2002
		Expenses - Incurred by Others		Valuation Adjustments		
	Expenses [1]	Accommodation Costs [2]	Legal Services [3]	Vacation Pay [4]	Total Expenses	Total Expenses
PROGRAM						
Ministry Support Services	$ 4,219	$ 144	$ 35	$ (77)	$ 4,321	$ 4,688
Information and Communications Technology	59,212	584	40	145	59,981	51,862
Science, Research and Development	92,732	270	57	1	93,060	91,685
	$ 156,163	$ 998	$ 132	$ 69	$ 157,362	$ 148,235

[1] Expenses - Directly Incurred as per the Statement of Operations, excluding valuation adjustments

[2] Costs shown are for Accommodation provided by Alberta Infrastructure

[3] Costs shown are for Legal Services provided by Alberta Justice

[4] Vacation Pay as per the Statement of Operations

ALBERTA SCIENCE AND RESEARCH AUTHORITY
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

Auditor's Report

Consolidated Statement of Operations

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Financial Position

Notes to the Consolidated Financial Statements

Consolidated Schedule of Expenses - Directly Incurred Detailed By Object

Consolidated Schedule of Budget

Consolidated Schedule of Comparison of Expenses - Directly Incurred and Capital Investment To Authorized Budget

Consolidated Schedule of Supplementary Information - Operating Results

Consolidated Schedule of Salary, Honoraria And Benefits Disclosure

Consolidated Schedule of Related Party Transactions

Consolidated Schedule of Allocated Costs

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Board of Management of the Alberta Science and Research Authority

I have audited the consolidated statement of financial position of the Alberta Science and Research Authority as at March 31, 2003 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Alberta Science and Research Authority as at March 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 23, 2003

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2003

(In thousands)

	2003		2002
	Budget (Schedule 2)	Actual	Actual
REVENUES (Note 2 and Schedules 2 and 3)			
Internal Government Transfers			
Transfer from Department - General Revenue Fund	$ 30,753	$ 30,753	$ 45,324
Transfer from Department - Lottery Fund	60,844	56,944	40,838
Transfers from Government of Canada	2,000	2,816	2,386
Investment Income	840	931	752
Other Revenue			
Commercial Revenue	39,578	28,749	34,472
Contracts with Other Ministries	5,700	1,734	2,684
Technology and Production Sales	135	123	1,099
Various	610	2,919	1,665
Total REVENUES	140,460	124,969	129,220
EXPENSES- Directly Incurred (Note 2 and Schedules 2 and 3)			
Program Expenses			
Operations and Policy Research	1,135	1,194	545
Science and Research Investments Program	36,722	38,067	38,818
Technology Commercialization Initiatives	3,675	3,530	2,277
iCORE Inc	10,000	10,051	5,845
Alberta Research Council Inc	73,981	60,449	61,997
Alberta Forestry Research Institute	2,260	1,775	2,012
Alberta Agricultural Research Institute	8,875	9,117	9,732
Alberta Energy Research Institute	6,940	6,855	8,963
Total Program Expenses	143,588	131,038	130,189
Other Expenses			
Provision for Vacation Pay	-	41	2
Total Other Expenses	-	41	2
Total EXPENSES	143,588	131,079	130,191
NET OPERATING RESULTS FROM CONTINUING OPERATIONS	(3,128)	(6,110)	(971)
OTHER			
Loss on Discontinued Operations (Note 3)	-	2,194	842
Total OTHER	-	2,194	842
NET OPERATING RESULTS	$ (3,128)	$ (8,304)	$ (1,813)

The accompanying notes and schedules are part of these financial statements.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2003

	(In thousands)	
	2003	2002
ASSETS		
Cash (Note 4)	$ 25,839	$ 19,841
Restricted Cash (Note 4)	1,295	1,196
Marketable Securities (Note 5)	762	151
Advances	-	3,900
Accounts Receivable (Note 6)	10,463	14,830
	38,359	39,918
Long Term Investments (Note 7)	250	429
Capital Assets (Note 8)	16,803	18,475
	$ 55,412	$ 58,822
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 21,997	$ 17,124
Unearned Revenue	3,502	3,016
Grants Payable	2,542	2,435
Deferred Contributions (Note 9)	1,295	1,196
Current Portion of Long Term Debt (Note 10)	401	395
	29,737	24,166
Long Term Debt (Note 10)	1,145	1,555
Accumulated Provision for Project Abandonment (Note 11)	1,200	1,467
	32,082	27,188
NET ASSETS		
Net Assets, Beginning of Year	$ 31,634	$ 33,447
Net Operating Results	(8,304)	(1,813)
Net Assets, End of Year	23,330	31,634
	$ 55,412	$ 58,822

The accompanying notes and schedules are part of these financial statements.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 2003

	(In thousands) 2003	2002
OPERATING TRANSACTIONS		
Net Operating Results from Continuing Operations	$ (6,110)	$ (971)
Non-Cash Items:		
Amortization of Capital Assets	2,544	2,628
Valuation Adjustments	41	2
Purchase of Marketable Securities	(432)	(105)
Proceeds from Sale of Marketable Securities	-	131
	(3,957)	1,685
Decrease / (Increase) in Advances	3,900	(3,900)
Decrease in Accounts Receivable	4,367	8,868
Increase in Accounts Payable and Accrued Liabilities	4,832	2,615
Increase / (Decrease) in Unearned Revenue	486	(1,935)
Increase in Grants Payable	107	1,799
Increase in Deferred Contributions	99	440
Increase in Current Portion of Long Term Debt	6	5
Decrease in Accumulated Provision for Project Abandonment	(267)	(2)
Cash Provided By Continuing Operations	9,573	9,575
Net loss for the year from Discontinued Operations	(1,159)	(842)
Amortization	186	207
Cash Used By Discontinued Operations (Note 3)	(973)	(635)
CASH PROVIDED BY OPERATING TRANSACTIONS	8,600	8,940
INVESTING TRANSACTIONS		
Increase in Restricted Cash	(99)	(440)
Purchases of Long Term Investments	-	(179)
Repayment of Long Term Debt	(410)	(401)
Purchases of Capital Assets (Schedule 3)	(2,157)	(2,188)
Proceeds from Disposal of Capital Assets	-	48
Proceeds from Sale of Discontinued Operations	64	-
CASH USED BY INVESTING TRANSACTIONS	(2,602)	(3,160)
NET CASH PROVIDED	5,998	5,780
CASH, BEGINNING OF YEAR	19,841	14,061
CASH, END OF YEAR	$ 25,839	$ 19,841

The accompanying notes and schedules are part of these financial statements.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

Note 1 Authority and Purpose

The Alberta Science and Research Authority is a provincial corporation established under the authority of the Alberta Science and Research Authority Act. This Act is the responsibility of the Ministry of Innovation and Science of the Province of Alberta.

The consolidated Alberta Science and Research Authority consists of the following organizations:

- Alberta Science and Research Authority
- Alberta Research Council Inc. including its wholly owned subsidiary C-FER Technologies (1999) Inc.
- iCORE Inc. (Alberta Informatics Circle of Research Excellence)

The purpose of the Alberta Science and Research Authority is to enhance the contribution of science, research and information technology to the sustainable prosperity and quality of life of all Albertans.

Note 2 Summaries of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

a) Reporting Entity

The reporting entity is the Alberta Science and Research Authority which is part of the Ministry of Innovation and Science for which the Minister of Innovation and Science is accountable. The other entity reporting to the Minister is the Department of Innovation and Science. The activities of the Department of Innovation and Science are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

b) Basis of Consolidation

The activities of the entities within the Alberta Science and Research Authority are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Intra-entity revenue, expense, asset and liability accounts, and investing and financing transactions have been eliminated. The financial statements of the individual entities provide more detailed information about the operations of each entity.

c) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue.

Internal Government Transfers - Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Expenses

Grants - Grants are recorded as expenditures when authorized and when all eligibility conditions have been satisfied.

Directly Incurred - Directly incurred expenses are those costs the Alberta Science and Research Authority has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program expenses like salaries, supplies, etc., directly incurred expenses also include:

- amortization of capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Incurred by Others - Services contributed by other entities in support of the Alberta Science and Research Authority's operations are disclosed in Schedule 6.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

c) **Basis of Financial Reporting** (cont'd)

Assets - Financial assets of the Alberta Science and Research Authority are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Capital assets of the Alberta Science and Research Authority are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets.

Expenses incurred for patents owned as a result of research activity are not capitalized due to the uncertain value of benefits that may accrue.

Expenses incurred on the acquisition or development of other intangible assets including intellectual capital are not capitalized, as there currently is not an acceptable methodology for measuring the value of future benefits accruing.

Liabilities - Liabilities represent all financial claims payable by the Alberta Science and Research Authority at fiscal year end.

Net Assets - Net assets represent the difference between the value of assets held by the Alberta Science and Research Authority and its liabilities.

Valuation of Financial Assets and Liabilities - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values.

The fair value of long-term investments approximate cost due to the long-term nature of the investments.

The fair value of long-term debt approximates its carrying value due to the fact that the interest rates approximate the market rate at March 31, 2003.

Note 3 Discontinued Operations

(In thousands)

On November 4, 2002, Alberta Research Council Inc. discontinued and sold the assets of its ZiMARC business unit.

The loss on discontinued operations is as follows:

Revenue	$	401
Expense		1,560
Operating loss from discontinued operations		(1,159)
Loss on disposal of capital assets		(1,035)
	$	(2,194)

On the Consolidated Statement of Operations, actual results for discontinued operations are reported separately from continuing operations and are reported on a net basis. Prior year results have been reclassified to reflect this change.

Schedule 4 presents operating results without segregating discontinued operations in order to provide a comparison to budget.

Note 4 Cash and Restricted Cash

(In thousands)

Cash consists primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in short-term and mid-term fixed income securities with a maximum term to maturity of three years. Due to the short-term nature of the CCITF investments, the carrying value approximates fair value. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates.

Interest of $931 (2002 - $752) earned on the cash balance of the Alberta Science and Research Authority's remaining CCITF accounts has been credited to the account, and is reported in these financial statements.

The Alberta Science and Research Authority has a Restricted Cash balance of $1,295 (2002 - $1,196) related to specific research project and programs as disclosed in Note 9.

Note 5 Marketable Securities

(In thousands)

As at March 31, 2003, the Alberta Science and Research Authority had marketable securities of $762 (2002 - $151). The market value of the marketable securities was $984 (2002 - $280). The net realizable value of the investment in shares of a private company approximates cost.

Note 6 Accounts Receivable

(In thousands)

	2003			2002
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 9,894	$ 783	$ 9,111	$ 7,200
Federal Government	418	-	418	1,366
Alberta Government Departments and Agencies	934	-	934	6,264
	$ 11,246	$ 783	$ 10,463	$ 14,830

Accounts receivable are unsecured and non-interest bearing.

Note 7 Long-Term Investments

(In thousands)

	2003	2002
Investment in shares of public companies	$ 1,315	$ 951
Investment in shares of private companies	250	429
	1,565	1,380
Provision for impairment in value	(1,315)	(951)
	$ 250	$ 429

The net realizable value of the investments in shares of a private company approximates carrying value.

During the year, the Alberta Research Council Inc. provided $364 (2002 - $951) of services in exchange for shares and warrants (see Note 12) of a public company.

Note 8 Capital Assets

(In thousands)

		2003			2002
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	Indefinite	$ 566	$ -	$ 566	$ 566
Building	30 years	2,107	307	1,800	1,866
Equipment [1]	3-20 years	35,241	27,270	7,971	8,690
Computer Hardware / Software	3 years	3,146	3,017	129	155
Other	25 years	10,155	3,818	6,337	7,198
		$ 51,215	$ 34,412	$ 16,803	$ 18,475

[1] Equipment also includes furniture and fixtures.

Note 9 Deferred Contributions

(In thousands)

Deferred Contributions $1,295 (2002- $1,196) represents unspent contributions that are subject to externally imposed restrictions related to specific research projects or programs.

	2003	2002
Alberta Agricultural Research Institute Development Programs	$ 751	$ 796
iCORE Inc. Industrial Chair Establishment Grant Program	-	100
Alberta Research Council Inc. Canadian International Development Agency Project	544	300
	$ 1,295	$ 1,196

Note 10 Long Term Debt

(In thousands)

	2003	2002
5.45% mortgage, payable in monthly instalments of $40 including interest, due October 1, 2004.	$ 1,546	$ 1,920
Bank term loan, at prime, payable in monthly instalments of $4 plus interest, due October 12, 2002.	-	30
	1,546	1,950
Less current portion	401	395
	$ 1,145	$ 1,555

A demand debenture with

- a fixed charge over land, building and equipment with a net book value of $3,247 (2002 - $3,339),
- a floating charge over other assets,
- an assignment of insurance proceeds and
- a general security agreement registered under the Personal Property Security Act creating a floating charge over all property and assets, both present and future

have been pledged as collateral for the mortgage and term loan.

The following estimated principal repayments during the next four years and in total are based on the assumption that the mortgage will be renewed under similar terms and conditions:

Year	Repayments
2004	$ 401
2005	423
2006	447
2007	275
	$ 1,546

Note 11 Accumulated Provision for Future Project Abandonment

(In thousands)

Under joint participation agreements, the Alberta Science and Research Authority will incur certain costs when wells and experimental projects are abandoned. Management's estimate of costs for future abandonment is $1,200 (2002 - $1,467).

Note 12 Commitments
(In thousands)

a) Grants

As at March 31, 2003 the Alberta Science and Research Authority had grant commitments of $96,975 (2002 - $69,850).

Year	Amount
2004	$ 42,122
2005	29,196
2006	17,876
2007	4,374
2008 Onwards	3,407
	$ 96,975

b) Leases

The Alberta Science and Research Authority leases certain equipment under operating leases that expire on various dates to 2007. The aggregate amount payable for the unexpired terms of these leases is as follows:

Year	Amount
2004	$ 92
2005	71
2006	46
2007	10
	$ 219

Note 13 Warrants and Options

(In thousands)

As part of the consideration for granting various licenses, the Alberta Research Council Inc. has received a number of options and warrants to acquire common shares of public companies. The following options and warrants have been recorded at nominal value:

	2003		2002	
	Exercise Price	Market Value [1]	Exercise Price	Market Value [1]
Options and warrants which expire in 2003	$ -	$ -	$ 510	$ 218
Warrants expiring in 2004	1,315	115	951	300
	$ 1,315	$ 115	$ 1,461	$ 518

[1] Market value represents the market value of shares, which would be acquired upon exercise of options and warrants.

These stock options and warrants are subject to market risk. As a result, the value of these financial instruments will fluctuate as a result of changes in the market price.

Note 14 Contingencies

(In thousands)

At March 31, 2003, the Alberta Science and Research Authority is a defendant in two legal claims (2002 - three legal claims). All of these claims have specified amounts totalling $52,200 (2002 - $52,633). The resulting loss, if any, for these claims cannot be determined.

Note 15 Defined Benefit Plans

(In thousands)

The Alberta Science and Research Authority participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Alberta Science and Research Authority also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,839 for the year ending March 31, 2003 (2002 - $1,712).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of $301,968 (2001 - surplus $5,338) and the Public Service Pension Plan reported an actuarial deficiency of $175,528 (2001 - actuarial surplus $320,487). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $6,472 (2001 - actuarial deficiency $399).

The Alberta Science and Research Authority also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2003, the Bargaining Unit Plan reported an actuarial deficiency of $14,434 (2002 - $8,646) and the Management, Opted Out and Excluded Plan an actuarial deficiency of $3,053 (2002 - $2,656). The expense for these two plans is limited to employer's annual contributions for the year.

Note 16 Comparative Figures

Certain 2002 figures have been reclassified to conform to the 2003 presentation.

Note 17 Approval of Financial Statements

These financial statements were recommended by the Audit Committee and approved by the Alberta Science and Research Authority Board.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 1

(In thousands)

	2003		2002
	Budget	Actual	Actual
OBJECT			
Salaries, Wages and Employee Benefits	$ 44,686	$ 38,176	$ 38,986
Supplies and Services	28,461	25,356	26,113
Grants	66,953	63,667	61,253
Financial Transactions and Other	31	1,336	1,211
Amortization of Capital Assets	3,457	2,544	2,628
Total EXPENSES	$ 143,588	$ 131,079	$ 130,191

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
BUDGET
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 2

(In thousands)

	2003				
	Estimates	Adjustments	Budget	Authorized Supplementary	Authorized Budget
REVENUES					
Internal Government Transfers					
Transfer from Department - General Revenue Fund	$ 30,753	$ -	$ 30,753	$ -	$ 30,753
Transfer from Department - Lottery Fund	60,844	-	60,844	-	60,844
Transfers from Government of Canada	2,000	-	2,000	-	2,000
Investment Income	840	-	840	-	840
Other Revenue					
Commercial Revenue	39,578	-	39,578	-	39,578
Contracts with Other Ministries	5,700	-	5,700	-	5,700
Technology and Production Sales	135	-	135	-	135
Other	610	-	610	-	610
Total REVENUES	140,460	-	140,460	-	140,460
EXPENSES					
Program Expenses					
Operations and Policy Research	1,135	-	1,135	-	1,135
Science and Research Investments Program					
- Operating Expenses	-	-	-	-	-
- Operating Expenses funded by Lotteries	36,722	-	36,722	-	36,722
Technology Commercialization Initiatives	3,675	-	3,675	-	3,675
iCORE Inc.					
- Operating Expenses	-	-	-	-	-
- Operating Expenses funded by Lotteries	10,000	-	10,000	-	10,000
Alberta Research Council Inc.					
- Contract Research	47,406	-	47,406	-	47,406
- Research Funded by ASRA	26,575	-	26,575	-	26,575
Alberta Forestry Research Institute					
- Operating Expenses	500	-	500	-	500
- Operating Expenses funded by Lotteries	1,760	-	1,760	-	1,760
Alberta Agricultural Research Institute					
- Operating Expenses	-	-	-	-	-
- Operating Expenses funded by Lotteries	8,875	-	8,875	-	8,875
Alberta Energy Research Institute					
- Operating Expenses	3,453	-	3,453	-	3,453
- Operating Expenses funded by Lotteries	3,487	-	3,487	-	3,487
Total Program Expenses	143,588	-	143,588	-	143,588
Other Expenses					
Valuation Adjustment - Provision for Vacation Pay	-	-	-	-	-
Total Other Expenses	-	-	-	-	-
Total EXPENSES	143,588	-	143,588	-	143,588
NET OPERATING RESULTS	$ (3,128)	$ -	$ (3,128)	$ -	$ (3,128)
CAPITAL INVESTMENT	$ 4,296	$ -	$ 4,296	$ -	$ 4,296

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS COMPARISON OF EXPENSES - DIRECTLY INCURRED AND CAPITAL INVESTMENT TO AUTHORIZED BUDGET FOR THE YEAR ENDED MARCH 31, 2003

Schedule 3

(In thousands)

	2003		
	Authorized Budget	Actual Expense	Increase / (Decrease)
REVENUES			
Internal Government Transfers			
Transfer from Department - General Revenue Fund	$ 30,753	$ 30,753	$ -
Transfer from Department - Lottery Fund	60,844	56,944	(3,900)
Transfers from Government of Canada	2,000	2,816	816
Investment Income	840	931	91
Other Revenue			
Commercial Revenue	39,578	28,749	(10,829)
Contracts with Other Ministries	5,700	1,734	(3,966)
Technology and Production Sales	135	123	(12)
Various	610	2,919	2,309
Total REVENUES	140,460	124,969	(15,491)
EXPENSES			
Program Expenses			
Operations and Policy Implementation	1,135	1,194	59
Science and Research Investments Program			
- Operating Expenses	-	859	859
- Operating Expenses funded by Lotteries	36,722	37,208	486
Technology Commercialization Initiatives	3,675	3,530	(145)
iCORE Inc.			
- Operating Expenses	-	3,951	3,951
- Operating Expenses funded by Lotteries	10,000	6,100	(3,900)
Alberta Research Council Inc.			
- Contract Research	47,406	33,874	(13,532)
- Research Funded by ASRA	26,575	26,575	-
Alberta Forestry Research Institute			
- Operating Expenses	500	416	(84)
- Operating Expenses funded by Lotteries	1,760	1,359	(401)
Alberta Agricultural Research Institute			
- Operating Expenses	-	242	242
- Operating Expenses funded by Lotteries	8,875	8,875	-
Alberta Energy Research Institute			
- Operating Expenses	3,453	3,453	-
- Operating Expenses funded by Lotteries	3,487	3,402	(85)
Total Program Expenses	143,588	131,038	(12,550)
Other Expenses			
Provision for Vacation Pay	-	41	41
Total Other Expenses	-	41	41
Total EXPENSES	143,588	131,079	(12,509)
NET OPERATING RESULTS FROM CONTINUING OPERATIONS	(3,128)	(6,110)	(2,982)
OTHER			
Loss on Discontinued Operations	-	2,194	2,194
Total OTHER	-	2,194	2,194
NET OPERATING RESULTS	$ (3,128)	$ (8,304)	$ (5,176)
CAPITAL INVESTMENT	$ 4,296	$ 2,157	$ (2,139)

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION - OPERATING RESULTS
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 4

(In thousands)

	2003		
	Per Consolidated Statement of Operations		
	Authorized Budget	Actual	Actual (Gross Basis) (Note 3)
REVENUES			
Internal Government Transfers			
Transfer from Department - General Revenue Fund	$ 30,753	$ 30,753	$ 30,753
Transfer from Department - Lottery Fund	60,844	56,944	56,944
Transfers from Government of Canada	2,000	2,816	2,816
Investment Income	840	931	931
Other Revenue			
Commercial Revenue	39,578	28,749	28,749
Contracts with Other Ministries	5,700	1,734	1,734
Technology and Production Sales	135	123	123
Various	610	2,919	3,320
Total REVENUES	140,460	124,969	125,370
EXPENSES			
Program Expenses			
Operations and Policy Implementation	1,135	1,194	1,194
Science and Research Investments Program			
- Operating Expenses	-	859	859
- Operating Expenses funded by Lotteries	36,722	37,208	37,208
Technology Commercialization Initiatives	3,675	3,530	3,530
iCORE Inc.			
- Operating Expenses	-	3,951	3,951
- Operating Expenses funded by Lotteries	10,000	6,100	6,100
Alberta Research Council Inc.			
- Contract Research	47,406	33,874	35,434
- Research Funded by ASRA	26,575	26,575	26,575
Alberta Forestry Research Institute			
- Operating Expenses	500	416	416
- Operating Expenses funded by Lotteries	1,760	1,359	1,359
Alberta Agricultural Research Institute			
- Operating Expenses	-	242	242
- Operating Expenses funded by Lotteries	8,875	8,875	8,875
Alberta Energy Research Institute			
- Operating Expenses	3,453	3,453	3,453
- Operating Expenses funded by Lotteries	3,487	3,402	3,402
Total Program Expenses	143,588	131,038	132,598
Other Expenses			
Provision for Vacation Pay	-	41	41
Total Other Expenses	-	41	41
Total EXPENSES	143,588	131,079	132,639
NET OPERATING RESULTS FROM CONTINUING OPERATIONS	(3,128)	(6,110)	(7,269)
OTHER			
Loss on Disposal of Capital Assets	-	1,035	1,035
Operating Loss from Discountinued Operations	-	1,159	-
Total OTHER	-	2,194	1,035
NET OPERATING RESULTS	$ (3,128)	$ (8,304)	$ (8,304)

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
SALARY, HONORARIA AND BENEFITS DISCLOSURE
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 5

	2003				2002
	Salary [1]	Honoraria [2]	Benefits & Allowances	Total	Total
Chair of Alberta Science and Research Authority	$ -	$ 32,620	$ -	$ 32,620	$ 29,302
Co-Chairs of Alberta Agricultural Research Institute	-	52,615	-	52,615	66,068
Co-Chairs of Alberta Energy Research Institute	-	25,609	-	25,609	10,765
Board Members [3]	15,000	56,558	255	71,813	65,690

NOTES:

[1] A Member of the Legislative Assembly (M.L.A) receives a monthly salary for acting as a Vice-Chair for the Alberta Science and Research Authority.

[2] The Chair of the Alberta Science and Research Authority, the Co-Chairs of the Alberta Agricultural Research Institute, the Co-Chairs of the Alberta Energy Research Institute and all other Board Members who are not employees of the Government and not M.L.A.'s may be paid remuneration in the form of honoraria.

[3] Included are Board Members of the Alberta Science and Research Authority, and Board Members of the Alberta Science and Research Authority's three unincorporated boards: the Alberta Agricultural Research Institute, Alberta Energy Research Institute and Alberta Forestry Research Institute.

[4] The salary, honoraria and benefits disclosure for the Alberta Research Council Inc. and iCORE Inc. are reported separately in their respective financial statements.

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED MARCH 31, 2003

Schedule 6

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in the Alberta Science and Research Authority.

The Alberta Science and Research Authority and its employees paid certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Alberta Science and Research Authority had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2003	2002	2003	2002
REVENUES				
Grant from the Department of Innovation and Science	$ 87,697	$ 86,162	$ -	$ -
Grants/Contracts with Other Alberta Government Departments and Agencies	-	-	1,734	2,684
	$ 87,697	$ 86,162	$ 1,734	$ 2,684
EXPENSES - DIRECTLY INCURRED				
Grants to Alberta Government Departments and Agencies	$ -	$ -	$ 847	$ 910
Charges from the Ministry of Finance	-	-	150	-
Charges from the Ministry of Infrastructure	-	-	99	30
Charges from the Alberta Corporate Services Centre	-	-	29	2
	$ -	$ -	$ 1,125	$ 942
RECEIVABLE FROM ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 103	$ 25	$ 1,363	$ -
PAYABLES TO ALBERTA GOVERNMENT DEPARTMENTS AND AGENCIES	$ 695	$ 277	$ 232	$ -

The Alberta Science and Research Authority also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

(In thousands)

	Entities in the Ministry		Other Entities	
	2003	2002	2003	2002
EXPENSES - INCURRED BY OTHERS				
Administrative support supplied by the Department of Innovation and Science	$ 2,829	$ 4,588	$ -	$ -
Accommodation from the Ministry of Infrastructure	-	-	15,611	11,543
Legal services from the Ministry of Justice	-	-	20	16
	$ 2,829	$ 4,588	$ 15,631	$ 11,559

ALBERTA SCIENCE AND RESEARCH AUTHORITY

CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
ALLOCATED COSTS
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 7

(In Thousands)

	2003						2002
		Expenses Incurred by Others			Valuation Adjustment		
	Expenses [1]	Accommodation Costs [2]	Legal Costs [3]	Administrative Costs [4]	Vacation Pay [5]	Total	Total
Program							
Operations and Policy Implementation	$ 1,194	$ 49	$ 20	$ 62	$ 41	$ 1,366	$ 1,261
Science and Research Investments Program	38,067	-	-	551	-	38,618	39,536
Technology Commercialization Initiatives	3,530	-	-	767	-	4,297	3,666
iCORE Inc.	10,051	38	-	-	-	10,089	5,872
Alberta Research Council Inc.	60,449	15,524	-	-	-	75,973	73,461
Alberta Forestry Research Institute	1,775	-	-	137	-	1,912	2,169
Alberta Agricultural Research Institute	9,117	-	-	596	-	9,713	10,463
Alberta Energy Research Institute	6,855	-	-	716	-	7,571	9,910
	$ 131,038	$ 15,611	$ 20	$ 2,829	$ 41	$ 149,539	$ 146,338

[1] Expenses - Directly Incurred as per the Consolidated Statement of Operations, excluding valuation adjustments.

[2] Costs shown for Accommodation provided by the Ministry of Infrastructure.

[3] Costs shown for Legal Services provided by the Ministry of Justice.

[4] Costs shown for Administrative Support provided by the Department of Innovation and Science.

[5] Vacation Pay as per the Consolidated Statement of Operations.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003

Auditor's Report

Consolidated Balance Sheet

Consolidated Statement of Revenue and Expense and Operating Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

Consolidated Schedule of Allocated Costs

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Board of Directors of the Alberta Research Council Inc.

I have audited the consolidated balance sheet of the Alberta Research Council Inc. as at March 31, 2003 and the consolidated statements of revenue and expense and operating equity, and cash flows for the year then ended. These financial statements are the responsibility of the Research Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Research Council as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
April 25, 2003

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2003

	(In thousands)	
	2003	2002
ASSETS		
Current:		
Cash (Note 4)	$ 6,385	$ 3,626
Marketable securities - quoted market value $984 (2002 - $280)	762	151
Accounts receivable (Note 5)	7,251	11,203
Accrued income receivable	3,633	3,507
Inventory	131	499
Prepaid Expenses	149	140
	18,311	19,126
Long-term:		
Long-term investments (Note 6)	250	429
Property, plant and equipment (Note 7)	16,802	18,475
	$ 35,363	$ 38,030
LIABILITIES AND EQUITY		
Current:		
Accounts payable and accrued liabilities (Note 8)	$ 9,569	$ 11,560
Unearned contract revenue (Note 8)	4,036	3,316
Current portion of long-term debt (Note 9)	401	395
	14,006	15,271
Long-term:		
Long-term debt (Note 9)	1,145	1,555
	15,151	16,826
Equity:		
Operating	20,212	21,204
	$ 35,363	$ 38,030

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE AND OPERATING EQUITY FOR THE YEAR ENDED MARCH 31, 2003

(In thousands)

	2003		2002
	Budget (Note 16)	Actual (Schedule 1)	Actual
REVENUE			
Investment from the Province of Alberta:			
General revenues	$ 27,075	$ 26,575	$ 24,675
Contract revenue:			
Commercial	35,913	31,030	31,037
Alberta government departments and agencies	8,689	5,938	9,233
Royalities, licensing fees and product sales (Note 3)	5,912	1,168	3,426
Interest Income	-	475	-
	77,589	65,186	68,371
EXPENSE			
Salaries, wages and benefits (Note 14)	45,986	38,670	39,339
Professional, technical and labour services (Note 8)	8,447	7,240	8,193
Materials and supplies	7,677	5,722	6,392
Other expenses (Note 8)	3,160	2,744	1,880
Amortization	3,033	2,544	2,632
Computing supplies and services	2,079	1,877	2,032
Travel and hospitality	2,480	1,802	1,906
Legal and patent	1,770	1,386	1,352
Maintenance and rental	818	581	592
Telephone	507	438	487
Insurance (Note 8)	426	411	374
Provision for impairment - long-term investments (Note 6)	-	364	951
Interest	135	109	152
Royalty expense (Note 8)	-	-	529
	76,518	63,888	66,811
Net earnings for the year from continuing operations	1,071	1,298	1,560
Net loss from discontinued opeartions (Note 3)	-	(2,290)	(842)
Net (loss) earnings for the year	1,071	(992)	718
Operating equity at beginning of year	21,204	21,204	20,486
Operating equity at end of year	$ 22,275	$ 20,212	$ 21,204

The accompanying notes are an integral part of these financial statements.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2003

	(In thousands)	
CASH PROVIDED BY (USED IN)	2003	2002
Operating activities:		
Net earnings for the year from continuing operations	$ 1,298	$ 1,560
Amortization	2,544	2,632
Net change in non-cash balances (Note 12)	2,914	(2,844)
Purchase of marketable securities	(432)	(105)
Proceeds from sale of marketable securities	-	131
Net cash provided by operating activities of continuing operations	6,324	1,374
Net loss for the year from discontinued operation (Note 3)	(1,159)	(842)
Amortization (Note 3)	186	207
Net change in inventory	(140)	-
Net cash used by operating activities of discontinued operations	(1,113)	(635)
Net cash provided by operating activities	5,211	739
Investing activities:		
Purchase of property, plant and equipment	(2,156)	(2,188)
Proceeds on disposal of property, plant and equipment	8	44
Purchase of long-term investments	-	(179)
Proceeds on sale of discontinued operations (Note 3)	100	-
Net cash used by investing activities	(2,048)	(2,323)
Financing activities:		
Repayment of long-term debt	(404)	(396)
Increase (decrease) in cash	2,759	(1,980)
Cash at beginning of year	3,626	5,606
Cash at end of year	$ 6,385	$ 3,626
Supplementary cash flow information:		
Interest paid	$ 109	$ 152
Interest received	$ 475	$ -

The accompanying notes are an integral part of these financial statements.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

Note 1 Authority and Purpose

The Alberta Research Council Inc. is incorporated under the Alberta Business Corporations Act (Alberta). The Alberta Research Council Inc. ("Research Council") is a wholly owned subsidiary of the Alberta Science and Research Authority ("Authority"), which is the responsibility of the Ministry of Innovation and Science of the Province of Alberta.

The Authority and its wholly owned subsidiaries are exempt from the payment of income tax under Section 149 of the Income Tax Act.

In partnership with global leaders, the Alberta Research Council helps to advance the economy and well being of Alberta and Canada by providing technology and innovation to meet current and emerging needs of industry and government.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of Consolidation

These consolidated financial statements include the accounts of the Research Council and its wholly owned subsidiary, C-FER Technologies (1999) Inc.

b) Investments in Marketable Securities

Investments in shares of public companies, which are highly liquid, are recorded at the lower of cost and market value.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

c) Inventory

Inventory consists primarily of raw materials for use in production and fulfillment of supply contracts and is valued at the lower of average cost and net realizable value.

d) Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over their estimated useful lives using the following annual rates:

Building	Thirty years
Leasehold improvements	Twenty-five years
Equipment	Three to twenty years
Furniture and fixtures	Five years
Computer equipment and software	Three years

e) Long-term investments

Long-term investments are accounted for on a cost basis. Declines in the value of the investments below cost are recognized when such declines are considered to be other than temporary.

f) Patents and other Intangible Assets

Expenses incurred related to patents owned by the Research Council as a result of research activity are not capitalized due to the uncertain value of benefits which may accrue to the Research Council.

Expenses incurred on the acquisition or development of other intangible assets including intellectual capital are not capitalized as there currently is not an acceptable methodology for measuring the value of future benefits accruing to the Research Council.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

g) Revenue Recognition

Provincial investment funds, general revenues, are recognized as revenue in the year approved.

Contract revenue is recognized as costs are incurred, up to the contract maximum and in accordance with contracted cost-sharing ratios. The Research Council makes full provision for all known or estimated losses on uncompleted contracts as soon as they can reasonably be estimated.

Royalties and licensing fees are recognized as they accrue in accordance with the relevant agreements and when the amount can be reasonably estimated and there is reasonable assurance of collectability of proceeds.

Revenue from product sales is recognized when products are delivered.

h) Expenses incurred by others

Services contributed by other entities in support of the Research Council's operations have not been recorded in the financial statements and are disclosed in Schedule 1.

i) Pension

The Research Council participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

Note 3 Discontinued operations

On November 4, 2002, Alberta Research Council Inc. disposed of its ZiMARC business unit for proceeds of $150,000. $100,000 of the proceeds was received in cash and the remaining $50,000 is due June 30, 2003. The results of ZiMARC have been presented as discontinued operations in the financial statements. Accordingly, prior period results have been reclassified to reflect this change.

(In thousands)

	2003	2002
Net Loss from ZiMARC Operations	$ 1,159	$ 842
Loss on sale of property, equipment and inventory	1,131	-
	$ 2,290	$ 842

Included in net loss from ZiMARC operations is $186,000 (2002 - $207,000) of amortization expense and $140,000 (2002 - $nil) from disposal of inventory.

Assets of the discontinued operations included in the consolidated balance sheet are as follows:

(In thousands)

	2003	2002
Current assets	$ -	$ 524
Non-current assets	-	1,333
	$ -	$ 1,857

Included in the budget for Royalties, licensing fees and product sales was $2,750,000 of revenue from ZiMARC.

Note 4 Cash

Cash consists primarily of deposits in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province of Alberta. The CCITF is managed by Alberta Treasury with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates. The average rate of interest earned on cash balances in the year was 2.8%. Cash of $544,000 (2002 - $300,000) is held in trust for use in a Canadian International Development Agency ("CIDA") project.

Note 5 Accounts Receivable

(In thousands)

	2003	2002
Commercial	$ 5,823	$ 8,491
Alberta government departments and agencies	1,428	2,712
	$ 7,251	$ 11,203

Accounts receivable are recorded net of $783,000 (2002 – $226,000) of allowance for doubtful accounts.

Note 6 Long-term Investments

(In thousands)

	2003	2002
Investments in shares of public companies	$ 1,315	$ 951
Investments in shares of private companies	250	429
	1,565	1,380
Provision for impairment of value	(1,315)	(951)
	$ 250	$ 429

The net realizable value of the investments in shares of a private company approximates carrying value.

During the year, the Research Council provided $364,000 (2002 – $951,000) of services in exchange for shares and warrants (see Note 15) of a public company.

Note 7 Property, plant and equipment

(In thousands)

	2003			2002
	Cost	Accumulated Amortization	Net	Net
Land	$ 566	$ -	$ 566	566
Building	2,107	307	1,800	1866
Leasehold improvements	10,154	3,818	6,336	7198
Equipment	34,850	26,892	7,958	8646
Furniture and Fixtures	391	378	13	44
Computer equipment and software	3,146	3,017	129	155
	$ 51,214	$ 34,412	$ 16,802	$ 18,475

Note 8 Related Party Transactions

The following table summarizes the Research Council's related party transactions for the year:

(In thousands)

Related Party	Relationship	Transaction	Classificiation	2003	2002
Alberta Infrastructure	Ministry	Parking Services	Salary, wages and benefits	$ 82	$ 82
Ministy of Finance	Government department	Insurance	Insurance	150	155
Alberta Corporate Service Centre	Government department	Postage Service	Other Expenses	29	26
Ministry of Innovation and Science	Ministry	Computer Services	Professional technical and labour services	380	-

The premises occupied by the Research Council, as well as some office furniture and tenant improvements, have been provided by the Province of Alberta at no cost (see Schedule 1).

Included in accounts payable is $nil (2002 – $529,000) due to the Authority, its parent and $657,000 (2002 – $277,000) due to Alberta Innovation and Science, the Ministry. The $529,000 payment made in the prior year was recorded as royalty expense in the statement of revenue and expense and operating equity.

Note 8 Related Party Transactions (cont'd)

Included in unearned contract revenue is $187,000 (2002 - $212,000) received from Alberta government departments and agencies.

Note 9 Long-term Debt

	(In thousands) 2003	(In thousands) 2002
5.45% mortgage, payable in monthly instalments of $39,439 including interest, due October 1, 2004.	$ 1,546	$ 1,920
Bank term loan, at prime, payable in monthly instalments of $4,161 plus interest, due October 12, 2002.	-	30
	1,546	1,950
Less: current portion	401	395
	$ 1,145	$ 1,555

A demand debenture with a fixed charge over land, building and equipment with a net book value of $3,247,000 (2002 - $3,339,000), a floating charge over other assets, an assignment of insurance proceeds and a general security agreement registered under the Personal Property Security Act creating a floating charge over all property and assets, both present and future have been pledged as collateral for the mortgage.

The following estimated principal repayments during the next four years and in total are based on the assumption that the mortgage will be renewed under similar terms and conditions:

	(In thousands)
Year ending March 31, 2004	$ 401
2005	423
2006	447
2007	275
	$ 1,546

Note 10 Contingency

During fiscal 2000, the Research Council was made aware of a $2,200,000 claim relating to intellectual property ownership, which was filed by a former employee. Management feels that the claim is without merit, however, the likelihood of loss is not determinable at this time. Any settlement that may occur would be accounted for as a charge against earnings in the year of settlement.

Note 11 Obligation Under Operating Leases

Future minimum lease payments for office equipment and vehicles over the next four years and in total are as follows:

	(In thousands)
Year ending March 31, 2004	$ 92
2005	71
2006	46
2007	10
	$ 219

Note 12 Net Change in Non-Cash Balances

	(In thousands)	
	2003	2002
Accounts receivable	$ 3,952	$ (312)
Accrued income receivable	(126)	(947)
Inventory	368	(118)
Prepaid expenses	(9)	88
Accounts payable and accrued liabilities	(1,991)	80
Unearned contract revenue	720	(1,635)
	$ 2,914	$ (2,844)

Note 13 Pension Plan

The Research Council participates in two multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan, as well as two Defined Contribution Plans. The expense for these pension plans is equivalent to the annual contributions of $1,789,000 for the year ending March 31, 2003 (2002 - $1,700,000).

Note 14 Board of Directors and Senior Executive Salaries and Benefits

	2003			2002
	Salary (1)	Benefits and Allowances (2)	Total	Total
Chair of the Board (3)	$ -	$ -	$ -	$ 15,766
Board Members	5,500	-	5,500	5,068
Chief Executive Officer	160,500	54,120	214,620	228,433
Chief Financial Officer	112,165	19,370	131,535	137,408
Vice-President, Energy Technologies (4)	158,901	26,888	185,789	142,637
Vice-President, Integrated Resource Management (5)	139,342	22,552	161,894	125,065
Vice-President, Life Sciences	120,000	19,820	139,820	154,702
Vice-President, Advanced Materials, Sensors and Intelligent Systems	105,252	14,264	119,516	131,236
Vice-President, External Relations & Alliances (6)	104,444	14,035	118,479	-
Vice-President, New Ventures (7)	21,422	6,582	28,004	-

(1) Salary includes regular pay, bonuses and lump sum payments.

(2) Benefits and allowances includes the employer's share of the cost of pension, Canada Pension Plan, Employment Insurance, dental, major medical, basic life insurance, short and long-term disability, employee health care expense accounts and vacation accrual. It also includes car allowance, payments made in lieu of benefits and membership fees.

(3) No salary was paid by the Alberta Research Council to the Chair of the Board during 2003.

(4) Vice-President, Energy Technologies position was vacant for 2 months in 2002.

(5) A new Vice-President, Integrated Resource Management started August 1, 2002.

(6) Vice-President, External Relations & Alliances started April 1, 2002.

(7) Vice President, New Ventures started December 16, 2002.

Note 15 Financial Instruments
(In thousands)

Financial instruments consist of accounts receivable, accrued income receivable, marketable securities and long-term investments which will result in future cash receipts as well as accounts payable and accrued liabilities and long-term debt which will result in future cash outlays.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of accounts receivable, accrued income receivable, accounts payable and accrued liabilities approximate the carrying values due to their short-terms to maturity. The fair value of the marketable securities is their market value as disclosed on the balance sheet.

The fair value of long-term investments approximate cost due to the long-term nature of the investments.

The fair value of long-term debt approximates its carrying value due to the fact that the interest rates approximate the market rate at March 31, 2003.

The Research Council is exposed to credit risk with respect to its commercial sales. However, this is minimized by the Research Council's program of credit evaluation of new customers. Provisions are maintained for potential credit losses, and any such losses to date have been within management's expectations. The Research Council is not exposed to significant credit risk from any one customer.

Note 15 Financial Instruments (cont'd)

Options and warrants

As part of the consideration for granting various licenses, the Research Council has received a number of options and warrants to acquire common shares of public companies. The following options and warrants have been recorded at nominal value:

(In thousands)

	2003		2002	
	Exercise Price	Market Value [1]	Exercise Price	Market Value [1]
Options and warrants which expire in 2003	$ -	$ -	$ 510	$ 218
Warrants which expire in 2004	1,315	115	951	300
	$ 1,315	$ 115	$ 1,461	$ 518

[1] Market value represents the market value of shares which would be acquired upon exercise of options and warrants.

The Research Council is subject to market risk with these stock options and warrants. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

Note 16 Budget

The 2003 budget was approved by the Board of Directors on March 20, 2002.

Note 17 Comparative Figures

The comparative figures have been reclassified where necessary to conform with current year's presentation.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED SCHEDULE TO ALLOCATED COSTS (1)
FOR THE YEAR ENDED MARCH 31, 2003

Schedule 1

(In thousands)

	2003			2002
		Expenses Incurred by Others		
	Expenses (2)	Accommodation Costs (3)	Total Expenses	Total Expenses
Total Expense	$ 63,888	$ 15,524	$ 79,412	$ 78,275

(1) If these allocated costs were paid for by the Research Council, the Province's contribution to the Research Council would be increased by $15,524 making total revenue for 2003 $80,710. Net loss for 2003 would have remained at $992.

(2) Expenses as per Consolidated Statement of Revenue and Expense and Operating Equity.

(3) Accommodation costs, including premises occupied by the Research Council, as well as some office furniture and tenant improvements, have been provided by the Province of Alberta at no cost. The Province's estimated costs to provide this support are as follows:

(In thousands)

	2003	2002
Accommodation cost:		
Building maintenance	$ 7,302	$ 5,786
Grants in lieu of taxes	1,641	1,899
Lease costs	2,164	1,840
Project expenses	2,018	427
Amortization	2,399	1,512
	$ 15,524	$ 11,464

iCORE Inc.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

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Schedule of Related Party Transactions

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Board of Directors of iCORE Inc.

I have audited the statement of financial position of iCORE Inc. as at March 31, 2003 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of iCORE Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of iCORE Inc. as at March 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 9, 2003

iCORE Inc.

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2003

(In thousands)

	2003		2002
	Budget	Actual	Actual
REVENUES			
Contribution from Alberta Science and Research Authority	$ 10,000	$ 6,022	$ 9,558
Industry Funding	-	100	-
Other Income	-	59	202
Total REVENUES	10,000	6,181	9,760
EXPENSES- Directly Incurred (Note 2)			
Salaries, wages and employee benefits	600	581	581
Supplies and services	375	366	375
Research Grants	7,750	6,979	3,632
Graduate student grants	1,275	2,153	1,272
Total EXPENSES	10,000	10,079	5,860
NET OPERATING RESULTS	$ -	$ (3,898)	$ 3,900

The accompanying notes and schedules are part of these financial statements.

iCORE Inc.

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2003

	(In thousands) 2003	(In thousands) 2002
ASSETS		
Cash (Note 3)	$ 53	$ 179
Restricted cash (Note 3)	-	100
Accounts Receivable (Note 4)	11	11
Advances (Note 5)	-	3,900
	$ 64	$ 4,190
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 61	$ 189
Deferred Contributions (Note 6)	-	100
	61	289
NET ASSETS		
Net Assets, Beginning of Year	$ 3,901	$ 1
Net Operating Results	(3,898)	3,900
Net Assets, End of Year	3	3,901
	$ 64	$ 4,190

The accompanying notes and schedules are part of these financial statements.

Approved by the Board of Directors

Roger Smith

Dr. Roger Smith
Chair of the Board
iCORE Inc.

Peter C Flynn

Dr. Peter Flynn
Chair of the iCORE Audit Committee
iCORE Inc.

iCORE Inc.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 2003

(In thousands)

	2003	2002
OPERATING TRANSACTIONS		
Net Operating Results	$ (3,898)	$ 3,900
Decrease in Accounts Receivable	-	39
Decrease (Increase) in Advances	3,900	(3,900)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(128)	97
Increase (Decrease) in Deferred Contributions	(100)	100
CASH PROVIDED BY OPERATING TRANSACTIONS	(226)	236
INVESTING TRANSACTIONS		
Decrease (Increase) in Restricted Cash	100	(100)
CASH PROVIDED (USED) BY INVESTING TRANSACTIONS	100	(100)
NET CASH PROVIDED	(126)	136
CASH, BEGINNING OF YEAR	179	43
CASH, END OF YEAR	$ 53	$ 179

The accompanying notes and schedules are part of these financial statements.

iCORE Inc.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

Note 1 Authority and Purpose

iCORE Inc. was established as a not-for-profit corporation in accordance with the Alberta Business Corporations Act, Chapter B-9, Revised Statues of Alberta 2000, as amended. iCORE Inc. is a wholly owned subsidiary of the Alberta Science and Research Authority. The Alberta Science and Research Authority and its wholly owned subsidiaries are exempted from the payment of income tax under Section 149 of the Income Tax Act.

The mandate of iCORE Inc. is to attract and grow a critical mass of outstanding researchers in the fields of computer science, electrical and computer engineering, physics, mathematics and other information and communications technology related disciplines. iCORE Inc. invests in the highest caliber research scientists and leaders who work on fundamental and applied problems in information and communications technology. It aims to fund iCORE Chairs at Alberta universities, around which world-class research teams will be developed.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate. These financial statements are prepared in accordance with the following accounting policies:

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

a) Reporting Entity

The reporting entity is iCORE Inc., which is a wholly owned subsidiary of the Alberta Science and Research Authority. The Alberta Science and Research Authority and its other wholly owned subsidiary, the Alberta Research Council Inc., are part of the Ministry of Innovation and Science for which the Minister of Innovation and Science is accountable. The other entity reporting to the Minister is the Department of Innovation and Science. The activities of the Department of Innovation and Science and the consolidated activities of the Alberta Science and Research Authority are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

b) Basis of Financial Reporting

Revenues - All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue. Externally restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred.

Expenses

Directly Incurred - Directly incurred expenses are those costs iCORE Inc. has primary responsibility and accountability for, as reflected in the Government's budget documents.

Grants are recorded as expenses when authorized and when all eligibility criteria have been satisfied.

Incurred by Others - Services contributed by other entities in support of iCORE Inc.'s operations are disclosed in Schedule 2.

Assets - Financial assets of iCORE Inc. are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Liabilities - Liabilities represent all financial claims payable by iCORE Inc. at fiscal year end.

Net Assets - Net assets represent the difference between the value of assets held by iCORE Inc. and its liabilities.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

b) Basis of Financial Reporting (cont'd)

Valuation of Financial Assets and Liabilities - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values.

Note 3 Cash and Restricted Cash

(In thousands)

a) Cash

Cash consists primarily of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

b) Restricted Cash

Restricted cash of Nil (2002- $100) represents unspent contributions that are subject to externally imposed restrictions related to specific research programs.

Note 4 Accounts Receivable

(In thousands)

	2003			2002
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Alberta Government Departments and Agencies	$ 11	$ -	$ 11	$ 11

Accounts receivable are unsecured and non-interest bearing.

Note 5 Advances
(In thousands)

iCORE Inc. provides grants to researchers and graduate students in order to attract them to Alberta and develop their research in Alberta. In 2002, iCORE provided payments on some awards prior to all eligibility criteria for recording grant expenses being met. These prepayments of grants were expensed in 2003 as eligibility criteria have been satisfied. No advances were made in 2003.

Note 6 Deferred Contributions
(In thousands)

Deferred contributions represent unspent resources externally restricted under the Industrial Chair Establishment grant program. Amounts will be recognized as revenue to the extent of expenses incurred under the program during the current period. Changes in the deferred contributions balance are as follows:

	2003	2002
Contributions received during year	$ -	$ 100
Less: Amounts recognized as revenue	(100)	-
Increase (decrease) during year	(100)	100
Balance at beginning of year	100	-
Balance at end of year	$ -	$ 100

Note 7 Commitments
(In thousands)

iCORE Inc. had research grant commitments as at March 31, 2003 totaling $11,000 (2002- $9,100).

Year	Committed
2004	$ 3,400
2005	4,050
2006	2,600
2007	950
Thereafter	-
	$ 11,000

Note 8 Comparative Figures

The comparative figures have been reclassified where necessary to conform with current year's presentation.

Note 9 Approval of Financial Statements

These financial statements have been reviewed by the iCORE Inc. Audit Committee and approved by the iCORE Inc. Board of Directors.

iCORE Inc.

SCHEDULE TO FINANCIAL STATEMENTS SALARY AND BENEFITS DISCLOSURE FOR THE YEAR ENDED MARCH 31, 2003

Schedule 1

	2003			2002
	Salary [1]	Benefits & Allowances [2]	Total	Total
Chair of the Board [3]	$ 31,483	$ -	$ 31,483	$ 29,985
President and Chief Executive Officer [4]	203,907	-	203,907	196,649
Director of Programs	88,200	25,942	114,142	106,269

NOTES:

(1) Salary includes regular base pay, bonuses, overtime and lump sum payments.

(2) Employer's share of all employee benefits and contributions or payments made on behalf of employees including retirement savings plan, health care, dental coverage, vision coverage, and professional development allowance.

(3) During the year the Chair of the Board was paid $31,483. During the previous year he was seconded part time from the University of Alberta and iCORE paid $29,985 to the University.

(4) The salary amount for the President and Chief Executive Officer comprises $82,961 (2002 - $82,824) for consulting services and $120,946 (2002 - $113,825) paid to the University of Calgary for full-time secondment.

iCORE Inc.

SCHEDULE TO FINANCIAL STATEMENTS RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED MARCH 31, 2003

Schedule 2

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in iCORE Inc.

iCORE Inc. had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2003	2002	2003	2002
REVENUES				
Grants from the Alberta Science and Research Authority	$ 6,022	$ 9,558	$ -	$ -
EXPENSES - DIRECTLY INCURRED				
Payments to the Alberta Research Council Inc.	$ 25	$ 17	$ -	$ -

iCORE Inc. also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

(In thousands)

	Entities in the Ministry		Other Entities	
	2003	2002	2003	2002
EXPENSES - INCURRED BY OTHERS				
Accommodation from the Alberta Research Council Inc.	$ 38	$ 27	$ -	$ -

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

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Consolidated Statement of Cash Flows

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AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Trustees of the Alberta Heritage Foundation for Medical Research

I have audited the consolidated statement of financial position of the Alberta Heritage Foundation for Medical Research as at March 31, 2003 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 17, 2003

Alberta Heritage Foundation for Medical Research

Consolidated Statement of Financial Position
March 31, 2003
(thousands of dollars)

	2003	2002
Assets		
Current		
Cash (Note 3)	$ 5,753	$ 9,805
Accounts receivable	89	160
Advances and prepaid expenses	91	106
	5,933	10,071
Long Term		
Property, plant and equipment (Note 5)	765	769
Total Assets	$ 6,698	$ 10,840
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	$ 2,986	$ 4,269
Deferred contributions (Note 8)	7,577	5,654
	10,563	9,923
Long Term		
Accrued retirement allowance (Note 7)	401	356
Accrued benefit liability (Note 6)	271	175
	672	531
Total Liabilities	11,235	10,454
Net (Liabilities) Assets (Note 9)	(4,537)	386
	$ 6,698	$ 10,840

The accompanying notes are part of these financial statements.

Approved by the Board:

David Kitchen
Trustee

Lou D. Hyndman
Trustee

Alberta Heritage Foundation for Medical Research
Consolidated Statement of Operations
For the Year Ended March 31, 2003
(thousands of dollars)

	2003	2002
Revenues		
Transfers from Endowment Fund (Note 4)	$ 51,000	$ 55,000
Health Research Collaboration Program (Note 8)	2,877	2,688
Medical Innovation Program (Note 8)	-	1,832
Donations	-	5
Interest	308	478
Recoveries on Technology Commercialization (Note 10)	208	19
	54,393	60,022
Expenses		
Grants and awards		
Personnel	34,667	35,635
Training	7,343	6,980
Technology commercialization	1,138	2,328
Applied health research	1,646	1,565
Other	7,701	7,498
	52,495	54,006
Program Delivery		
HYRS program	62	58
Technology commercialization	42	115
Health technology assessment	239	257
Applied health research programs	1,086	945
	1,429	1,375
Program Operations		
Peer review	878	846
Human resources	2,696	2,396
Communication and education	510	412
Impact analysis	85	19
	4,169	3,673
Administration		
Office services	464	574
Information services	155	81
Governance and planning	323	176
Amortization of property, plant and equipment	281	222
	1,223	1,053
	59,316	60,107
Deficiency of revenues over expenses	$ (4,923)	$ (85)

Alberta Heritage Foundation for Medical Research

Consolidated Statement of Changes in Net Assets

For the Year Ended March 31, 2003

(thousands of dollars)

	2003			2002
	Invested in Property, Plant and Equipment	Unrestricted	Total	Total
Balance at beginning of year	$ 769	$ (383)	$ 386	$ 471
Deficiency of revenue over expense	-	(4,923)	(4,923)	(85)
Purchase of property, plant and equipment	278	(278)	-	-
Loss on disposal of property, plant and equipment	(1)	1	-	-
Amortization of property, plant and equipment	(281)	281	-	-
Balance at end of year	$ 765	$ (5,302)	$ (4,537)	$ 386

Alberta Heritage Foundation for Medical Research

Consolidated Statement of Cash Flows

For the Year Ended March 31, 2003

(thousands of dollars)

	2003	2002
Operating activities		
Cash from operations	$ 51,516	$ 55,503
Cash from Medical Innovation Program	-	132
Cash from Health Research Collaboration	4,800	4,800
Cash for grants and awards	(53,610)	(52,358)
Cash for program delivery	(1,429)	(1,375)
Cash for program operations	(3,983)	(3,417)
Cash for administration	(1,068)	(787)
Net cash (used in) provided from operating activities	(3,774)	2,498
Investing activities		
Cash paid for purchase of property, plant and equipment	(278)	(517)
Proceeds on disposal of property, plant and equipment	-	1
Net cash used in investing activities	(278)	(516)
Net (decrease) increase in cash for the year	(4,052)	1,982
Cash at beginning of year	9,805	7,823
Cash at end of year	$ 5,753	$ 9,805

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

Note 1 Authority and Purpose

The Alberta Heritage Foundation for Medical Research (the Foundation) operates under the authority of the Alberta Heritage Foundation for Medical Research Act, Chapter A-21, Revised Statutes of Alberta 2000, as amended. The Foundation is exempt from Income Tax under section 149(l)(d.1) of the Income Tax Act.

The Foundation supports and promotes research in Alberta to improve health and thereby the quality of life of Alberta and people throughout the world.

Note 2 Significant Accounting Policies and Reporting Practices

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Basis of Presentation

These consolidated financial statements include the accounts of the Alberta Foundation for Health Research, a wholly owned subsidiary of the Foundation, which operates under The Alberta Companies Act and is a registered charitable organization for income tax purposes. The Alberta Foundation for Health Research activities are directed to promote and support medical and health research.

(b) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Property, plant and equipment, except for leasehold improvements, are amortized on a straight-line basis over their estimated useful lives at the following annual rates:

Furniture	10%
Office Equipment	20%
Computer Equipment	33%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Note 2 Significant Accounting Policies and Reporting Practices (cont'd)

(c) Fair Value of Financial Instruments

Short-term instruments are valued at their carrying amounts included on the consolidated statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash, restricted cash, accounts receivable, advances, accounts payable and accrued liabilities.

(d) Revenue Recognition

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recognized as revenue when earned.

Restricted contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Restricted investment income is deferred and recognized as revenue in the period in which the related expenses are incurred.

(e) Grants and Awards Expense

Grants and awards approved by the Trustees of the Foundation are recorded as expenses when all conditions of eligibility have been met.

Note 3 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term income securities with a maximum term to maturity of three years. Interest is earned on the daily cash balance at the average rate of earnings of the Fund, which varies depending on prevailing market interest rates.

Trustees have authority to draw down funds from the endowment to cover cash requirements. Cash is therefore drawn from the endowment on an as needed basis. Funds to cover deferred contributions are retained in the endowment.

Note 4 Alberta Heritage Foundation for Medical Research Endowment Fund

The Endowment Fund operates pursuant to the Alberta Heritage Foundation for Medical Research Act and consists of an initial endowment of $300 million from the Alberta Heritage Savings Trust Fund together with cumulative earnings thereon, less cumulative transfers to the Foundation.

Transfers to the Foundation are available at the request of the Trustees of the Foundation provided that such transfers do not result in the net assets of the Endowment Fund, valued at cost, being less than the initial endowment.

At March 31, 2003, the net assets of the Endowment Fund valued at cost was approximately $826 million (2002 $961 million) and the market value of the investments was $767 million (2002 $942 million).

Note 5 Property, Plant and Equipment

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(thousands of dollars)			
Furniture and equipment	$ 522	$ 292	$ 230	$ 243
Computer hardware and software	1,211	809	402	265
Leasehold improvements	200	67	133	167
Property, plant and equipment under construction	-	-	-	94
	$ 1,933	$ 1,168	$ 765	$ 769

Note 6 Pension Plan

The Foundation's pension plan is a defined benefit plan. An actuarial valuation of the plan which was carried out on March 31, 2003 by the Foundation's actuary was used to determine the Foundation's pension expense and accrued benefit liability. The following significant actuarial assumptions were employed to determine the pension expense and the accrued benefit obligation:

	2003	2002
Expected long-term rate of return on plan assets	7.50%	7.50%
Discount rate	6.00%	6.25%
Assumed rate of salary escalation	4.50%	4.50%

Note 6 Pension Plan (cont'd)

The transitional asset is being amortized over the average remaining service period of active employees expected to receive benefits under benefit plans. The cost of pensions and other retirement benefits earned by employees is determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees.

Information about the Foundation benefit plan is as follows:

	2003	2002
(a) Pension expense	(thousands of dollars)	
Current service cost, net of employee contributions	$ 162	$ 170
Interest cost	117	124
Expected return on plan assets	(130)	(127)
Amortization of transitional asset	(29)	(29)
Defined benefit plan expense	$ 120	$ 138
(b) Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ (1,711)	$ (1,751)
Current service costs	(219)	(218)
Interest cost	(117)	(124)
Actuarial gain	210	353
Benefits paid	27	29
Accrued benefit obligation, end of year	$ (1,810)	$ (1,711)
(c) Plan assets		
Fair value of plan assets, beginning of year	$ 1,708	$ 1,679
Actual return on plan assets	(196)	10
Employee contributions	81	48
Benefits paid	(27)	(29)
Fair value of plan assets, end of year	$ 1,566	$ 1,708
(d) Accrued benefit liability		
Funded status - plan deficit	$ (244)	$ (3)
Unamortized net actuarial loss	401	284
Unamortized net transitional asset	(428)	(456)
Accrued benefit liability	$ (271)	$ (175)

Note 7 Retirement Allowance

Accrued retirement allowance consists of the unfunded liability of retirement allowance. The unfunded liability at March 31, 2003 of $400,895 (2002 $356,000) has been accrued and $44,738 was expensed in 2002/2003. This liability was determined by an independent actuary using the same assumptions that were used to value the pension plan.

Note 8 Deferred Contributions

The Foundation and Alberta Health have entered into an agreement to facilitate and enhance health research and health technology assessment and their dissemination in the Province of Alberta.

Deferred contributions represent unspent resources externally restricted under the Health Research Collaboration Agreement. Amounts are recognized as revenue to the extent of expenses incurred under these programs during the current period.

Changes in the deferred contributions balance are as follows:

	2003	2002
	(thousands of dollars)	
Contributions received during the year		
Transfers from Alberta Health under the Health Research Collaboration Agreement	$ 4,800	$ 4,800
Interest	-	51
Recoveries on Technology Commercialization (Note 10)	-	81
	4,800	4,932
Less amounts recognized as revenue in the current year		
Health Research Collaboration	2,877	2,688
Medical Innovation Program	-	1,832
	2,877	4,520
Increase during the year	1,923	412
Balance at beginning of year	5,654	5,242
Balance at end of year	$ 7,577	$ 5,654
The balance is comprised as follows:		
Health Research collaboration	$ 7,577	$ 5,654

Note 9 Net (Liabilities) Assets

Operations include the biomedical and health programs of the Foundation which are funded from the transfers from the Endowment Fund and available cash balances. The Foundation's policy is to retain funds in the Endowment Fund and transfers are made only on an as needed basis.

Note 10 Recoveries on Technology Commercialization

The Foundation has entered into various agreements to fund technology commercialization projects. The projects involved have high scientific merit, but are speculative with both technical and commercial risk. Any recoveries by the Foundation under these agreements will be long term, in some cases at least ten years. In addition to recoveries, some agreements contain a provision for future royalty payments.

Recoveries on Technology Commercialization are recognized as revenue. The total recoveries were as follows:

	2003	2002
AHFMR Recoveries credited to Revenue	$ 208	$ 19
MIP Recoveries credited to Deferred Contribution	-	81
	$ 208	$ 100

Note 11 Commitments

	Grants & Awards [a]	Office Premises [b]	Total
	(thousands of dollars)		
2003-2004	$ 31,678	$ 78	$ 31,756
2004-2005	17,433	78	17,511
2005-2006	10,387	78	10,465
2006-2007	5,452	39	5,491
2007-2008	1,102	-	1,102
	$ 66,052	$ 273	$ 66,325

[a] Grants and Awards for which all conditions of eligibility have not been met are recorded as commitments.

[b] The Foundation has entered into a 69 month lease for office premises. This lease expires on September 29, 2006.

Note 12 Executive Compensation

	2003			2002
	Salaries [a]	Benefits [b]	Total [d]	Total
Chairman	$ 12,000	$ -	$ 12,000	$ 12,000
Board of Trustees	73,200	2,648	75,848	70,796
President and Chief Executive Officer	239,757	62,824 [c]	302,581	278,303
Vice President, Programs	123,757	18,293 [c]	142,050	141,663
Vice President, Corporate Affairs and Commercialization	110,388	18,460 [c]	128,848	125,772
	$ 559,102	$ 102,225	$ 661,327	$ 628,534

(a) Salaries include regular base pay, overtime, retainers, honoraria, and any other direct cash remuneration.

(b) Benefits include the Foundation's share of all employee benefits and contributions or payments made on behalf of employees including Employee Insurance, Canada Pension Plan, vacation payouts, pension, health care, dental coverage, medical benefits, out-of-country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans and professional memberships.

(c) Contributions for accrued retirement allowance were $34,700 (2002 $53,800).

(d) Salaries and benefits are distributed to various expense categories including human resources and governance and planning.

Note 13 Budget

The budget process involves the determination of the cost for the estimated number of investigators sponsored for Foundation awards and meeting standards of excellence which the Foundation could support within the spending guidelines and program objectives laid out by the Board of Trustees of the Foundation. Variance from budget is determined in a large part by the number and quality of actual applications received and deferred or declined awards.

Note 13 **Budget** (cont'd)

The 2002-2003 budget was approved by the Board of Trustees in March 2002. Following is the Unconsolidated Alberta Heritage Foundation for Medical Research budget:

	Actual	Budget
	(thousands of dollars)	
Revenue	$ 54,388	$ 75,172
Grants and Awards	52,495	67,545
Program Delivery	1,429	2,060
Operations	4,169	4,415
Administration	1,221	1,152
	59,314	75,172
(Deficiency) excess of revenue over expense	$ (4,926)	$ -

Funds are budgeted and transferred from the Endowment Fund on an as needed basis.

Note 14 Approval of Financial Statement

These financial statements were approved by the Board of Trustees.

ALBERTA FOUNDATION FOR HEALTH RESEARCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Directors of the Alberta Foundation for Health Research

I have audited the statement of financial position of the Alberta Foundation for Health Research as at March 31, 2003 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 17, 2003

Alberta Foundation for Health Research
Statement of Financial Position
March 31, 2003

	2003	2002
Assets		
Cash (Note 3)	$ 154,843	$ 152,141
Liabilities and Net Assets		
Accounts payable	$ -	$ 619
Net Assets	154,843	151,522
	$ 154,843	$ 152,141

The accompanying notes are part of these financial statements.

Approved by the Board:

David Kitchen
Director

Matthew W. Spence
Director

Alberta Foundation for Health Research

Statement of Operations

For the Year Ended March 31, 2003

	2003	2002
Revenue		
Interest	$ 4,343	$ 5,875
Donations	275	5,345
	4,618	11,220
Expense		
Professional Fees	1,098	2,713
Meeting Expense	-	1,934
Office Supplies	-	534
Promotion & advertising	199	272
	1,297	5,453
Excess of revenue over expense for the year	$ 3,321	$ 5,767

Alberta Foundation for Health Research

Statement of Changes of Net Assets

For the Year Ended March 31, 2003

	2003	2002
Balance at beginning of year	$ 151,522	$ 145,755
Excess of revenue over expense	3,321	5,767
Balance at end of year	$ 154,843	$ 151,522

Alberta Foundation for Health Research

Statement of Cash Flows

For the Year Ended March 31, 2003

	2003	2002
Operating activities		
Cash from operations	$ 4,618	$ 11,220
Cash for administration	(1,916)	(4,834)
Net increase in cash for the year	2,702	6,386
Cash at beginning of year	152,141	145,755
Cash at end of year	$ 154,843	$ 152,141

ALBERTA FOUNDATION FOR HEALTH RESEARCH

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

Note 1 Authority and Purpose

The Alberta Foundation for Health Research, a subsidiary of the Alberta Heritage Foundation for Medical Research, operates under The Alberta Companies Act and is a registered charity for income tax purposes. The Foundation was incorporated on November 17, 1994 and commenced operations during 1998. The Foundation's activities are directed to promote and support medical and health research.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Fair Value of Financial Instruments

Short-term instruments are valued at their carrying amounts included on the statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

(b) Revenue Recognition

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred.

Interest revenue is recognized on an accrual basis.

Note 3 Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. Interest is earned on the daily cash balance at the average rate of earnings of the Fund, which varies depending on prevailing market interest rates.

Note 4 Budget

As the Foundation commenced operations in 1998 and has had limited activity, a budget was not prepared for 2002-2003. When appropriate the Board will determine a budgeting process, given that donations are unpredictable and operating expenses are minimal.

Note 5 Approval of Financial Statements

These financial statements were approved by the Board of Directors.

ALBERTA HERITAGE FOUNDATION FOR SCIENCE AND ENGINEERING RESEARCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Board of Trustees of the Alberta Heritage Foundation for Science and Engineering Research

I have audited the statement of financial position of the Alberta Heritage Foundation for Science and Engineering Research as at March 31, 2003 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

I also report that Section 8(2) of the *Alberta Heritage Foundation for Science and Engineering Research Act* states that "The Provincial Treasurer shall not pay money out of the Endowment Fund if in the opinion of the Trustees of the Foundation, on consultation with the Provincial Treasurer, the payment would impair the real value of the Endowment Fund over the long term." As the terms "real value" and "over the long term" are not defined in the legislation, I am unable to assess whether transfers from the Endowment Fund were made in compliance with this section of the Act.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 24, 2003

Alberta Heritage Foundation
For Science and Engineering Research
Statement of Financial Position
March 31, 2003

	2003	2002
Assets		
Current		
Cash (Note 3)	$ 191,050	$ 64,615
Accounts receivable	4,640	3,372
Prepaid expenses	5,047	4,092
	200,737	72,079
Long Term		
Property, plant and equipment (Note 5)	148,565	171,098
Total Assets	$ 349,302	$ 243,177
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	$ 654,365	$ 103,909
Current portion of deferred lease inducement	10,141	12,612
	664,506	116,521
Long Term		
Deferred lease inducement	26,198	36,339
Total Liabilities	690,704	152,860
Net (Liabilities) Assets (Note 6)	(341,402)	90,317
	$ 349,302	$ 243,177

The accompanying notes are part of these financial statements.

Approved by the Board:

Mary C. Arnold.

Mr. Alvin Libin
Chairman

Ms. Mary Arnold, FCA
Trustee

Alberta Heritage Foundation
For Science and Engineering Research
Statement of Operations
For the Year Ended March 31, 2003

	2003	2002
Revenue		
Transfers from Endowment Fund (Note 4)	$ 6,325,000	$ 1,550,000
Interest and other revenue	20,765	4,423
	6,345,765	1,554,423
Expenses		
Grants and awards		
Students	1,024,107	275,531
Associateships	687,333	-
Establishment	1,310,044	-
Ingenuity Centres	2,413,575	-
	5,435,059	275,531
Program Delivery		
Ingenuity Conference	45,118	-
Youth Education Programs	8,000	-
	53,118	-
Operations		
Peer review	190,777	220,588
Human resources	638,767	491,621
Communication and education	155,740	118,577
	985,284	830,786
Administration		
Office services	140,261	198,171
Information services	6,389	8,093
Governance and planning	116,587	154,604
Amortization of property, plant and equipment	40,786	21,609
	304,023	382,477
Total Expense	6,777,484	1,488,794
(Deficiency) excess of revenue over expenses	$ (431,719)	$ 65,629

Alberta Heritage Foundation
For Science and Engineering Research

Statement of Changes in Net Assets
For the Year Ended March 31, 2003

	2003			2002
	Invested in Property, Plant and Equipment	Unrestricted	Total	Total
Balance at beginning of year	$ 171,098	$ (80,781)	$ 90,317	$ 24,688
(Deficiency) excess of revenue over expense	-	(431,719)	(431,719)	65,629
Purchase of property, plant and equipment	18,253	(18,253)	-	-
Amortization of property, plant and equipment	(40,786)	40,786	-	-
Balance at end of year	$ 148,565	$ (489,967)	$ (341,402)	$ 90,317

Alberta Heritage Foundation
For Science and Engineering Research
Statement of Cash Flows
For the Year Ended March 31, 2003

	2003	2002
Operating activities		
Cash from operations	$ 6,345,765	$ 1,554,423
Cash for grants and awards	(4,834,999)	(275,531)
Cash for program delivery	(53,118)	-
Cash for operations	(1,008,454)	(794,877)
Cash for administration	(304,506)	(294,837)
Net cash provided from operating activities	144,688	189,178
Investing activities		
Cash paid for purchase of property, plant and equipment	(18,253)	(161,436)
Proceeds on disposal of property, plant and equipment	-	1,476
Net cash used in investing activities	(18,253)	(159,960)
Net increase in cash for the year	126,435	29,218
Cash at beginning of year	64,615	35,397
Cash at end of year	$ 191,050	$ 64,615

ALBERTA HERITAGE FOUNDATION FOR SCIENCE AND ENGINEERING RESEARCH

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2003

Note 1 Authority and Purpose

The Alberta Heritage Foundation for Science and Engineering Research (the Foundation) operates under the authority of the Alberta Heritage Foundation for Science and Engineering Research Act, Chapter A-21, Revised Statutes of Alberta 2000, as amended. The Foundation commenced operations on April 1, 2000 and is exempt from Income Tax under section 149(l)(d.1) of the Income Tax Act.

The Foundation supports and promotes a balanced long term program of science and engineering research based in Alberta directed to the discovery of new knowledge and application of that knowledge to improve the quality of Alberta's economy, communities and environment.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Property, plant and equipment are amortized on a straight-line basis over their estimated useful lives at the following annual rates:

Furniture	10%
Office Equipment	20%
Computer Equipment	33%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(b) Fair Value of Financial Instruments

Short-term instruments are valued at their carrying amounts which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash, accounts receivable, accounts payable and accrued liabilities.

Note 2 Significant Accounting Policies and Reporting Practices (cont'd)

(c) Revenue Recognition

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recognized as revenue when earned.

(d) Grants and Awards Expense

Grants and awards approved by the Trustees of the Foundation are recorded as expenses when all conditions of eligibility have been met.

(e) Lease Inducement

The lease inducement, a cash payment received by the Foundation on the lease for office premises, has been deferred and is accounted for as a reduction of office rental expense on a straight-line basis over the term of the lease.

Note 3 Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term income securities with a maximum term to maturity of three years. Interest is earned on the daily cash balance at the average rate of earnings of the Fund, which varies depending on prevailing market interest rates.

Note 4 Alberta Heritage Foundation for Science and Engineering Research Endowment Fund

The Endowment Fund operates pursuant to the *Alberta Heritage Foundation for Science and Engineering Research Act* and consists of an initial endowment of $500 million from the General Revenue Fund of the Province of Alberta together with cumulative earnings thereon, less cumulative transfers to the Foundation.

Note 4 Alberta Heritage Foundation for Science and Engineering Research Endowment Fund (cont'd)

Transfers to the Foundation are available at the request of the Trustees of the Foundation provided that such transfers do not impair the real value of the Endowment Fund, over the long term.

At March 31, 2003, the net assets of the Endowment Fund valued at cost was approximately $474 million (2002 $513 million) and the market value of the investments was $420 million (2002 $475 million). The Foundation has been informed that an additional $21 million will be added to the endowment during the fiscal year ending March 31, 2004.

Note 5 Property, Plant and Equipment

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	$ 87,666	$ 15,065	$ 72,601	$ 78,962
Computer hardware and software	63,405	32,522	30,883	34,494
Leasehold improvements	62,587	17,506	45,081	57,642
	$ 213,658	$ 65,093	$ 148,565	$ 171,098

Note 6 Net (Liabilities) Assets

Expenses include the science and engineering programs of the Foundation which are funded from the transfers from the Endowment fund and available cash balances. The Foundation's policy is to retain funds in the Endowment Fund and transfers are made only on an as needed basis.

Note 7 Executive Compensation

	2003			2002
	Salaries [a]	Benefits [b]	Total [c]	Total [c]
Chairman	$ 10,650	$ -	$ 10,650	$ 10,750
Board of Trustees	81,650	2,282	83,932	91,604
President	244,042	5,674	249,716	129,523
	$ 336,342	$ 7,956	$ 344,298	$ 231,877

[a] Salaries include retainers, honoraria and any other direct cash remuneration.

[b] Benefits include the Foundation's share of all employee benefits and contributions or payments made on behalf of employees including Employment Insurance, Canada Pension Plan, vacation payouts, health care, dental coverage, medical benefits, out-of-country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans and professional memberships.

[c] Salaries and benefits are distributed to various expense categories including human resources and governance and planning.

Note 8 Commitments

(a) The Foundation has entered into a 60 month lease for office premises. This lease expires October 31, 2006.

(b) Total commitments pertain to the following fiscal years:

	Grants & Awards	Office Premises	Total
2003-2004	$ 2,720,522	$ 39,160	$ 2,759,682
2004-2005	647,901	39,160	687,061
2005-2006	150,000	39,160	189,160
2006-2007	-	22,843	22,843
2007-2008	-	-	-
	$ 3,518,423	$ 140,323	$ 3,658,746

Note 9 Budget

The budget process involves the determination of the cost for the estimated number of investigators sponsored for the Foundations awards and meeting standards of excellence which the Foundation could support within the spending guidelines and program objectives laid out by the Board of Trustees of the Foundation.

The 2002-2003 budget was approved by the Board of Trustees in March 2002. Following is the Alberta Heritage Foundation for Science and Engineering Research budget:

	Actual	Budget
Revenue	$ 6,345,765	$10,597,600
Grants and Awards	5,435,059	8,785,100
Program Delivery	53,118	18,000
Operations	985,284	1,378,100
Administration	304,023	416,400
	6,777,484	10,597,600
(Deficiency) excess of revenue over expense	$ (431,719)	$ -

Funds are budgeted and transferred from the Endowment Fund on an as needed basis.

Note 10 Comparative Figures

Certain 2002 figures have been reclassified to conform to the 2003 presentation.

Note 11 Approval of Financial Statements

These financial statements were approved by the Board of Trustees.

Other Information

Information in this section is unaudited.

Key Activities/Outcomes for 2002 – 03 for:

- Alberta Heritage Foundation for Medical Research
- Alberta Heritage Foundation for Science and Engineering Research (Alberta Ingenuity Fund)

Alberta Heritage Foundation for Medical Research (AHFMR)

Key Activities/Outcomes for 2002 – 03

Goal 1: To Maintain International Standards of Excellence Through an Appropriate and Effective Peer Review System.

- As of March 31, 2003, 238 AHFMR funded researchers and 318 researchers-in-training are supported at the University of Alberta, the University of Calgary, and the University of Lethbridge.
- Additional mental health and health services researchers receive funding through Alberta Health and Wellness's Health Research Fund, administered by AHFMR.
- All awards to personnel are made according to the highest international criteria for excellence. To fulfil this purpose, more than 500 reviewers from all over the world provide us with their reviews or sit on one of 12 AHFMR standing review committees for awards competitions.
- During 2002 – 03 three health technology assessment reports were produced and all were externally peer reviewed prior to publication.

Goal 2: To Manage Expenditures to Ensure the Continuance of AHFMR for Future Generations While Avoiding Significant Fluctuations in Annual Spending.

- The AHFMR Endowment was created in 1980 with $300 million. As of March 31, 2003 the AHFMR Endowment has more than doubled.
- The cumulative AHFMR investment in the province for biomedical and health research since 1980 now totals over $700 million.
- AHFMR has quarterly meetings with Alberta Revenue, as well as annual meetings between Alberta Revenue and AHFMR's Board of Trustees. Alberta Revenue manages AHFMR's endowment.
- Transfers from the endowment were $51 million during 2002 – 03.

Goal 3: To Maintain and Strengthen Basic Research in Order to Discover the Underlying Causes of Disease and Provide a Foundation for Patient and Health Research, the Practice of Medicine and Prevention of Disease.

- For the competition year 2002 – 03, new awards granted over the next five-year period in various areas of medical research totalled $27 million to 43 researchers.
- Key basic research areas include: investigating how the immune system works; cardiac research ranging from how infection plays a role in heart conditions to heart rhythm problems to how gender and culture can affect heart patients' decisions regarding their care; preventing scarring in burn patients; chronic pain treatment approaches; assessing driving ability in the elderly; joint injury and repair; the effects of activity on quality of life for cancer patients; and developing markers for endometrial cancer.
- $6.7 million award to 11 health researchers working in such areas as physical activity for cancer survivors, community action programs for children, improving health for people with kidney disease, comparison of treatment approaches for pancreatitis, dealing with problem drinking in Alberta, quality of life following coronary bypass surgery, multicultural health issues in seniors and preventing fatigue in cancer patients.

Goal 4: To Expand AHFMR Support of Patient-Based and Health Research in Alberta and Lead New Initiatives in These Areas.

In fall of 2000, AHFMR entered a second five-year contract with Alberta Health and Wellness called the Health Collaboration Agreement. Progress in this agreement can be described by the following:

- For the competition year 2002 – 03, 16 researchers received offers for Health Research Fund awards totalling $1.29 million over two years. The Health Research Fund is administered by AHFMR on behalf of Alberta Health and Wellness. A further $613,500 has been released to 14 researchers conducting on-going projects approved in last year's competition. Research projects funded in 2002 include: assessing elderly patients' needs to enable them to remain in their own homes; direct costs of Hepatitis C; pelvic exercises to help with continence after prostatectomy; osteoporosis treatments; long term outcomes for people who attempt suicide; respiratory health in poultry workers; and evaluating impact of physician advice for motivating people to exercise.
- AHFMR commissioned five State of the Science reviews in areas of high priority for Alberta: Continuum of Care and Delivery Models; Information Management and Information Technology for Health Improvement; Financing and Public Expectations; and Governance and Accountability. Following-up on this will be a Call for Programs in Health Service Research.
- AHFMR's Health Research Agenda, first developed in 1997 has now been updated in 2002 – 03 and will continue to guide AHFMR in allocating the most effective and efficient support for health research throughout the province.
- AHFMR's Health Technology Assessment (HTA) Unit produced the following assessments: Prevalence of chronic pain: an overview, December 2002; Multidisciplinary pain programs for chronic pain: evidence from systematic reviews, January 2003; Suicide prevention strategies: evidence from systematic reviews, February 2003.
- Five Technotes on the following topics were completed: Cryosurgery for prostate cancer, May 2002; Intracoronary brachytherapy for the treatment of in-stent restenosis, May 2002; Osteogenic protein-1 for fracture healing, November 2002; Treatment of thoracic insufficiency syndrome with the vertical expandable prosthetic titanium rib, December 2002; Trigger point injections for non-malignant chronic pain, December 2002.
- Two information papers were completed on the following topics: Stereotactic radiosurgery: an update, May 2002; Hyperbaric oxygen therapy — recent findings on evidence for its effectiveness, March 2003.
- Five Health Technology Initiatives to encourage the use of evidence to inform policy and decision making in the Alberta health care system were produced: AHFMR Screening procedure for use when considering the implementation of health technology, April 2002; Local health technology assessment: a guide for health authorities, December 2002; Minimally invasive hip arthroplasty, March 2003; Elements of effectiveness for health technology assessment programs, March 2003; Emergency department fast track system.
- Three issues of the newsletter were produced: Tech-Wise — Issue No. 19, April 2002; Issue No. 20, August 2002; and Issue No. 21, March 2003.
- The Applied Health Research Programs portfolio of the Foundation delivers and supports programs to increase capacity across the health care delivery system for the production and use of locally relevant research. Through the SEARCH Program 2001 – 03, 27 research projects to address local information needs were conducted by practicing professionals in their organizations. These projects ranged from evaluation of intervention programs (such as the Brain Injury Rehabilitation

Program) to assessment of population health needs (such as the screening practices of Hutterite women). In addition, six cross-region collaborative projects were conducted on: determinants of research use, physician influenza immunization, mandated cross-sectoral collaboration, primary care teams, and administrative structures for regional research.

- The Community Research Ethics Review Board (CREBA), a community-based ethics board pioneered by the Foundation to ensure access to ethics review for research across the province, met monthly, reviewed twenty protocols from rural regions and independent practitioners, and provided guidance and referral to novice researchers. The Foundation is leading a working group of Alberta REBs to make recommendations on processes for determining which types of projects require review, and ensuring appropriate access to review.
- The Alberta Consultative Health Research Network (ACHRN), funded through a special initiative grant to the University of Calgary has established Research Development Advisors in Edmonton and Lethbridge, a consultant base throughout the province, and linkages with northern regional colleges to further develop research support for practitioners.
- The Research Transfer Network of Alberta, established in 2001 – 02, held a national meeting on research transfer in October 2002, attended by over 150 participants and focusing on cross-sectoral lessons for improving knowledge uptake. Three 'Water Cooler Sessions' on best-practice research transfer have been held with province-wide accessibility.
- Fourteen new health researchers received independent investigator awards such as the Population Health Investigator, Scholar or Senior Health Scholar. This brings the total of investigators supported in health research to 37.

Goal 5: To Maintain Research Education and Training Programs and Encourage Young Albertans to Pursue Research Careers.

- Over $7 million was awarded in fellowships, clinical fellowships, studentships and summer studentships to more than 500 researchers-in-training.
- The SEARCH (Swift Efficient Application of Research in Community Health) Program, an AHFMR-led collaboration of the Universities of Alberta and Calgary, Alberta Health and Wellness, and Alberta's health authorities, completed the research training of 27 community-based health professionals from 13 health authorities and other health care organizations. The $1 million, AHFMR-funded SEARCH program trains participants in tailor-made, intensive modules. The participants are linked in a province-wide computer network and are involved in individual and group projects based on health needs prioritized by their regions.
- The Lionel McLeod scholarship was awarded to University of British Columbia PhD student Brett Abrahams for his studies in the molecular mechanisms underlying brain development.
- AHFMR offered the third Heritage Youth Research Summer (HYRS) Program in 2002 which gave 45 of the brightest high school students summer research experience working and learning in Heritage and other labs at the Universities of Calgary, Alberta and Lethbridge.

Goal 6: To Encourage Increased Collaboration in Alberta, Canada, and Elsewhere Among Investigators, Research Institutions, Governments, Other Granting Agencies and the Private Sector.

- AHFMR held the third annual Research Awareness Day lecture series for the public at the University of Alberta and University of Calgary.
- AHFMR contributed to the Canada Research Chairs through stipend and infrastructure funding contributions ($2.5 million over five years) based on amounts funded by Canada Foundation for Innovation and other partners.
- AHFMR participated in and sponsored several workshops and events and contributed to the development of a province-wide network of linkage and exchange in applied health research and its use in decision-making (e.g. HTA workshops and conferences, SEARCH regional receptions in Slave Lake, Lethbridge, Grande Prairie, Red Deer, SEARCH managers workshops, etc.). AHFMR is working with the CHSRF, HSURC and other organizations in developing models for research transfer capacity in health organizations.
- AHFMR established a pilot project with the Health Quality Council of Saskatchewan to implement and evaluate a partnership model for SEARCH program participation. Two SEARCH IV participants are from Saskatchewan. A similar model is being explored with AHFMR by universities and health organizations in the United Kingdom.
- Applied Health Research Programs such as SEARCH and ACHRN stimulate and support multi-disciplinary, multi-institutional collaboration, for example the SEARCH Core Faculty includes five faculties in two universities.

Goal 7: To Continue to Promote the Development of Medical Research-Related Economic Activities in Alberta, Including the Commercialization of Innovations.

- The Technology Commercialization (TC) Program committed $1,138,020 in project and internship funding during the year. Mentoring and access to expertise for applicants continue to be strong components of the Program.
- AHFMR participated in and sponsored several TC-related workshops and forums. AHFMR continues to develop in-depth case studies of previously funded projects for use in TC workshops and educational forums.
- AHFMR worked to strengthen infrastructure by facilitating researcher education in entrepreneurship; and collaborating with economic development agencies and venture capitalists.
- AHFMR provided ongoing support of Inno-centre Alberta.
- AHFMR continued to develop the TC Internship Program through active recruitment of industry receptors. TC Interns receive training in a broad spectrum of commercialization activities including: market analysis/intelligence, technology transfer, business development, product development, and intellectual property management.

Goal 8: To Maintain and Improve Communication with the Public, Government, the Research Community, Universities, and Health-Related Institutions.

- AHFMR publications included the award-winning quarterly magazine AHFMR Research News, the AHFMR Community Report (with financial highlights), and Health Technology Assessment Reports.
- The AHFMR web site is continually monitored and maintained for currency.
- AHFMR monthly news bulletins to MLAs were produced.
- AHFMR media work highlights research accomplishments of funded personnel on a monthly basis.
- AHFMR distributed its Community Report in the form of a flyer for requesting a 2003 calendar through three daily newspapers, the Alberta weekly newspaper chain, the waiting rooms of all physicians in the province and to those on a 12,000-name mailing list.
- AHFMR supported two science students as media fellows, one with The Edmonton Journal in Edmonton, the other with CBC radio in Calgary.
- AHFMR supported the Alberta Science Fair program with prize money for seven regional winners.
- AHFMR participated in and was a major sponsor of the Alberta Teachers Association Science Council Conference in November, with AHFMR-funded researchers as guest speakers.
- AHFMR presented, in collaboration with the U of A and U of C Faculties of Medicine, a day-long series of lectures on popular health topics for the public at each university in October.
- AHFMR, in collaboration with the Faculty of Medicine and Dentistry at the University of Alberta, the Faculty of Medicine at the University of Calgary, Alberta Cancer Board, Alberta Cancer Foundation, and Genome Prairie, sponsored the visit to Alberta in October of two Nobel Laureates and one of the 2002 Gairdner Award winners.
- AHFMR held receptions at the University of Calgary and the University of Alberta to enable the university research community to meet AHFMR Trustees and to formally recognize researchers funded by AHFMR for 20 years.

Goal 9: To Develop a Mechanism for the Continuing Review and Updating of the AHFMR Strategic Plan and for Setting Priorities.

- AHFMR's Board of Trustees meets quarterly to review planning and directions.
- AHFMR's Board of Trustees and senior management meet in September for a strategic planning session.
- An International Board of Review (which AHFMR is legislated to organize every six years) will be convened in May of 2004 to review AHFMR's activities and recommend directions. A Report will be issued in early fall of 2004.
- AHFMR's Board of Trustees oversaw a broad community consultation process which ran from January to May 2002 and that gathered advice and opinion in such key areas as: research environment, opportunities for research investment, and assessment of Alberta's competitiveness internationally. The report was released in June 2002.

Key Factors Affecting Performance

AHFMR performance is based on its primary function of funding research. The number of proposals submitted and quality of applications is a main determining factor in any of the competitions for awards, as is the amount of money available annually from a portion of the AHFMR endowment interest. Since AHFMR works in partnership with the province's universities to recruit and pay salaries of researchers, initiatives on the part of the universities play a large part in recruiting the best and brightest researchers to Alberta. Alberta Regional Health Authorities are key contributors to the development of health research capacity throughout the province through their endorsement, support of, and contribution to, the SEARCH program and other AHFMR applied health research initiatives. In 1998, an International Board of Review endorsed AHFMR's directions and activities and confirmed AHFMR's seminal role in the province in establishing and continuing to build a first-class research community.

Anticipated Changes or New Directions

The establishment, over the past 23 years, of a top quality research community and brain trust in Alberta is attracting funding from outside sources at a rate of $2 – 3 dollars for every AHFMR dollar invested. AHFMR seeks out and initiates new opportunities for matching funding and for collaborative ventures with other provincial and national funding bodies. AHFMR also seeks out opportunities to expand its research portfolio and close the loop between the generation of knowledge through health research results, and its application to improve health and the effectiveness of the health system.

Changes Needed to Measure Performance

Currently, universal mechanisms for measuring comprehensive, overall performance in medical and health research and the impact of that research in socioeconomic terms do not exist. AHFMR carefully tracks the usual scientific metrics of publications, citations and career performance. Other measures, such as case studies are highlighted in AHFMR's publications. AHFMR actively seeks opportunities that would assist in measuring the impact of investment on research. AHFMR has created an internal Impact Analysis unit to develop and apply appropriate methodology to gauge the impact and effectiveness of AHFMR's activities. Most recently, AHFMR has developed an internal impact analysis framework relating to both program and performance monitoring as well as medium and long term outcome evaluation of AHFMR activities.

The Alberta Ingenuity Fund*

*Trade name of the Alberta Heritage Foundation for Science and Engineering Research

Key Activities/Outcomes for 2002 – 03

Alberta Ingenuity Fund (Alberta Ingenuity) is the trade name of the Alberta Heritage Foundation for Science and Engineering Research established by the Government of Alberta in 2000 with an Act of Legislation that provided an endowment of $500 million.

Interest from the endowment is used to support a balanced, long-term program of world-class science and engineering research conducted by top researchers at Alberta colleges and technical institutes, the province's three research-intensive universities, and in private industry.

Goal 1: To implement and maintain "relentlessly first class" grants and awards programs.

Alberta Ingenuity funding is delivered through a wide range of grants and awards programs which help Alberta academic institutions and industry recruit and retain outstanding researchers and researchers-in-training. In fiscal 2002 – 03 Alberta Ingenuity ran three grant competitions for the first time — the Fellowship, Industrial Associateship and Scholar/Centre Development programs. As well, Alberta Ingenuity provided grant funding, for new recipients or on a continuing basis, for three of our programs — Studentships, Associateships, Establishment Grants and our flagship program, the Ingenuity Centres.

- **Studentships:** In fiscal 2003, approximately $1 million went towards helping 90 top graduate students gain full-time research experience in a natural or engineering discipline. The results of a January 2003 competition committed us to the support of an additional 50 students. Alberta Ingenuity provides up to $20,000 a year for up to five years to each student. Alberta Ingenuity also collaborated with iCORE Inc. to introduce the Alberta Ingenuity/iCORE complementary studentship award to draw the best and brightest ICT students to Alberta.
- **Associateships:** Alberta Ingenuity committed up to $2.2 million over two years to help 20 top researchers gain post-doctoral research training at the Universities of Alberta, Calgary, and Lethbridge, at Olds College Centre for Innovation, and at Virtual Materials Group, Inc., a Calgary-based company.
- **Fellowships and Industrial Associateships:** Alberta Ingenuity ran its first competitions for two new targeted programs: the Alberta Ingenuity Fellowship program for academic researchers and the novel Alberta Ingenuity Industrial Associateship Program for researchers working in industry. The first seven recipients of the Industrial Associateship program were determined in March 2003 — this competition is run on a quarterly basis.
- **Establishment Grants:** In fiscal 2003, Alberta Ingenuity paid out approximately $1.3 million of a two year $2.2 million total commitment to top new independent researchers at the Universities of Alberta and Calgary to help them with lab start-up costs.
- **Research Centres Program:** The Alberta Ingenuity Centre for Machine Learning and the Alberta Ingenuity Centre for Carbohydrate Science each received $1.2 million in the first year of a five year award, and each may receive about $7 million over the term of the award, for a potential combined total of $14 million.

- **Scholar/Centre Development Program:** Alberta Ingenuity ran its first competition for the Scholar/Centre Development Program which helps recruit and support research 'stars' to seed or accelerate the development of Alberta Ingenuity Research Centres.

Goal 2: To maintain research excellence through consultation and an appropriate and effective peer review system.

- Alberta Ingenuity receives strategic advice on program design from its Science and Engineering Advisory Council (SEAC), an international group of senior research leaders that includes members from institutions such as Stanford, Princeton, Harvard, and the Massachusetts Institute of Technology.
- Alberta Ingenuity also relies on the recommendations of provincial, national and international peer reviewers from industry and academia to ensure that funding is provided to the very best researchers. Our ever expanding network of expert reviewers, (currently we rely on 73 individuals), either participate in one of six review committees or provide detailed written assessments in their area of expertise.
- Alberta Ingenuity established the Alberta Ingenuity-University Liaison Committee which consists of Vice Presidents (Research) and the Deans of Science, Engineering, Agriculture, and Graduate Studies at Alberta universities. Alberta Ingenuity will consult with and provide updates to this committee three to four times a year.

Goal 3: To establish a funding instrument that impacts prosperity and quality of life in Alberta.

Alberta Ingenuity received nine proposals for Alberta Ingenuity Research Centres from post-secondary institutions in the province. These proposals underwent rigorous peer review including both external peer review and review by Alberta Ingenuity's distinguished international Science and Engineering Advisory Council (SEAC).

As a result of these reviews, the Alberta Ingenuity Centres for Machine Learning and Carbohydrate Science were awarded and an agreement put in place with the host institution. The Centres were announced in the fall at a media conference attended by Premier Ralph Klein and Victor Doerksen, the Minister of Innovation and Science.

The Alberta Centre for Machine Learning will concentrate on creating smarter computers for use in areas such as e-commerce, industrial processing, improved diagnostics for health care, everyday software applications, and interactive entertainment.

The Alberta Ingenuity Centre for Carbohydrate Science will research the chemistry of complex sugars that coat cells and are responsible for cellular interactions and many immune reactions. New families of carbohydrates will be made which could lead to the development of new vaccines. New analytical tools, including instrumentation, will be developed to study the structure of complex carbohydrates.

Alberta Ingenuity also established the Alberta Ingenuity Scholar/Centre Development program based on a recommendation by SEAC to help recruit research 'stars' to seed or accelerate the development of Alberta Ingenuity Research Centres.

Goal 4: To encourage and enhance innovation in industry.

- A key objective of the Alberta Ingenuity Research Centres Program is to encourage the commercialization of research results, build collaborations with Alberta industry, and train highly qualified personnel.
- Following extensive consultation with industry leaders, Alberta Ingenuity established the Industrial Associateship Program to help industry gain research expertise. It is anticipated that this program will have particular value to start-up and fledgling technology-based companies.
- Alberta Ingenuity is a patron of the Alberta Science and Technology (ASTech) Leadership Awards Foundation.
- Alberta Ingenuity is a founding member of Inno-Centre Alberta (ICA) and is committed to sponsoring ICA for its first five years. ICA provides mentoring, marketing, and support to start-up companies.
- Alberta Ingenuity is a sponsor of the joint Alberta Ingenuity-Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA) Research Excellence Award awarded annually to a top engineer conducting research in Alberta.

Goal 5: To champion science and engineering research in the community.

- Alberta Ingenuity sponsors Innovation Alberta, a province-wide science and technology program on CKUA Radio, as well as Earth and Sky, a science program directed at kids, on the same station.
- Alberta Ingenuity supports the Innovation 2005 initiative, a celebration of 100 years of science and technology achievement in Alberta.
- Over 125 registrants participated in Alberta Ingenuity's "The Science of Climate Change" conference — the first of a series of annual conferences that will focus on an area of intersection between science and public policy.
- Alberta Ingenuity sponsored the YWCA "Women of Distinction Award" in the area of Science and Technology.
- Alberta Ingenuity produced its 2001 – 02 annual report that was distributed to government officials, MLAs, industry leaders, science and engineering researchers, academic institutions, the media, and the general public.
- Alberta Ingenuity produces a bi-monthly news bulletin called "Flash of Ingenuity," which is distributed to MLAs.
- Alberta Ingenuity has re-designed its website to better serve the needs of its users and to showcase the work of Alberta Ingenuity supported researchers. The site is continually monitored and updated regularly.
- Alberta Ingenuity regularly conducts media work to highlight the work of Alberta Ingenuity-supported researchers.

Goal 6: To maintain research education and training programs and encourage young people to seek careers in science and engineering.

- Alberta Ingenuity continued to sponsor science and engineering camps for Alberta school students at the Universities of Alberta and Calgary and in Grande Prairie.
- Alberta Ingenuity supported 90 graduate students at the Universities of Alberta and Calgary and committed to 50 additional students.
- Alberta Ingenuity supported the Central Alberta Science Fair.
- Alberta Ingenuity continues to participate in and be a major sponsor of the Alberta Teachers' Association's annual Science Council Conference.
- Alberta Ingenuity continues to support Explore IT, a one-day conference designed to increase Grade 9 girls to seek careers in information and communications technology.

Goal 7: To be responsible stewards of the endowment and manage expenditures effectively.

- Alberta Ingenuity is governed by a Board of Trustees, chaired by Alvin Libin of Calgary. Trustees are appointed by the Government of Alberta. Six trustees are nominated by various educational institutions and professional organizations to represent them and six more represent the general public.
- Alberta Ingenuity spending is approved and/or recommended by the Board of Trustees which ensures the rate of expenditure is consistent with the value of the endowment.
- All transfers from the endowment require Board of Trustee approval. Alberta Revenue manages Alberta Ingenuities and endowment.

Key Factors Affecting Performance

- Alberta Ingenuity is still a young organization, with its new programs gradually being implemented. The size of these programs, together with Alberta Ingenuity's ability to introduce new innovation will depend on available funding.
- Long-term program planning is based on the value and performance of the Endowment Fund.

Anticipated Changes or New Directions

- Alberta Ingenuity is continuing to work with its stakeholders to further ensure that its grants and awards guidelines and application process suit their needs.
- Alberta Ingenuity continues to consult with industry, universities, and public colleges and technical institutes to design innovative programs that will facilitate quality research in these settings.

Changes to Performance Measures

As a relatively new organization, Alberta Ingenuity is setting up its programs to measure their effectiveness in the short and long terms.

- Measurement will include the organization's ability to recruit and retain excellent researchers in Alberta, and the effects Alberta Ingenuity support will have on industry who participate in grant programs (i.e., through new intellectual property, inventions, and innovations).
- Alberta Ingenuity will track new investments and research/business partnerships in the province and outside sources involved in Alberta research that may be attracted by Alberta Ingenuity support.

Alphabetical List of Entities' Financial Statements In Ministry 2002 – 03 Annual Reports

Entities included in the consolidated government reporting entity

Ministry, Department, Fund or Agency	**Ministry Annual Report**
Agriculture Financial Services Corporation	Agriculture, Fo[illegible] and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Gaming
Alberta Government Telephones Commission, The	Finance
Alberta Heritage Foundation for Medical Research Endowment Fund	Revenue
Alberta Heritage Savings Trust Fund	Revenue
Alberta Heritage Scholarship Fund	Revenue
Alberta Heritage Science and Engineering Research Endowment Fund	Revenue
Alberta Historical Resources Foundation, The	Community Development
Alberta Insurance Council	Finance
Alberta Municipal Financing Corporation	Finance
Alberta Pensions Administration Corporation	Finance
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Innovation and Science
Alberta Risk Management Fund	Revenue
Alberta School Foundation Fund	Learning
Alberta Science and Research Authority	Innovation and Science
Alberta Securities Commission	Revenue
Alberta Social Housing Corporation	Seniors
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development
Alberta Treasury Branches	Finance
ATB Investment Services Inc.	Finance
Child and Family Services Authorities:	Children's Services
Awasak Child and Family Services Authority	
Calgary Rocky View Child and Family Services Authority	
Child and Family Services Authority Region 13	
Child and Family Services Authority Region 14	
Diamond Willow Child and Family Services Authority	
Hearthstone Child and Family Services Authority	
Keystone Child and Family Services Authority	
Ma' Mowe Capital Region Child and Family Services Authority	
Metis Settlements Child and Family Services Authority	
Neegan Awas'sak Child and Family Services Authority	
Ribstone Child and Family Services Authority	
Sakaigun Asky Child and Family Services Authority	
Sakaw-Askiy Child and Family Services Authority	
Silver Birch Child and Family Services Authority	
Southeast Alberta Child and Family Services Authority	
Sun Country Child and Family Services Authority	
West Yellowhead Child and Family Services Authority	
Windsong Child and Family Services Authority	

Ministry, Department, Fund or Agency	**Ministry Annual Report**
Credit Union Deposit Guarantee Corporation	Finance
Crop Reinsurance Fund of Alberta	Agriculture, Food and Rural Development
Department of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Department of Children's Services	Children's Services
Department of Community Development	Community Development
Department of Energy	Energy
Department of Finance	Finance
Department of Gaming	Gaming
Department of Health and Wellness	Health and Wellness
Department of Innovation and Science	Innovation and Science
Department of Learning	Learning
Department of Revenue	Revenue
Department of Seniors	Seniors
Department of Solicitor General	Solicitor General
Department of Sustainable Resource Development	Sustainable Resource Development
Environmental Protection and Enhancement Fund	Sustainable Resource Development
Gainers Inc.	Finance
Government House Foundation, The	Community Development
Historic Resources Fund	Community Development
Human Rights, Citizenship and Multiculturalism Education Fund	Community Development
iCORE Inc.	Innovation and Science
Lottery Fund	Gaming
Ministry of Aboriginal Affairs and Northern Development[1]	Aboriginal Affairs and Northern Development
Ministry of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Ministry of Children's Services	Children's Services
Ministry of Community Development	Community Development
Ministry of Economic Development[1]	Economic Development
Ministry of Energy	Energy
Ministry of Environment[1]	Environment
Ministry of Finance	Finance
Ministry of Executive Council[1]	Executive Council
Ministry of Gaming	Gaming
Ministry of Government Services[1]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[1]	Human Resources and Employment
Ministry of Infrastructure[1]	Infrastructure
Ministry of Innovation and Science	Innovation and Science
Ministry of International and Intergovernmental Relations[1]	International and Intergovernmental Relations
Ministry of Justice[1]	Justice
Ministry of Learning	Learning
Ministry of Municipal Affairs[1]	Municipal Affairs
Ministry of Revenue	Revenue
Ministry of Seniors	Seniors
Ministry of Solicitor General	Solicitor General
Ministry of Sustainable Resource Development	Sustainable Resource Development
Ministry of Transportation[1]	Transportation
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development

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1 Ministry includes only the department so separate department financial statements are not necessary.

2 Dissolved July 23, 2002

Ministry, Department, Fund or Agency	Ministry Annual Report
Persons with Developmental Disabilities Community Boards	
Calgary Community Board	Community Development
Central Community Board	Community Development
Edmonton Community Board	Community Development
Northeast Community Board	Community Development
Northwest Community Board	Community Development
South Community Board	Community Development
Persons with Developmental Disabilities Michener Centre Facility Board[2]	Community Development
Persons with Developmental Disabilities Provincial Board	Community Development
Provincial Judges and Masters in Chambers Reserve Fund	Finance
S C Financial Ltd.	Finance
Supplementary Retirement Plan Reserve Fund	Finance
Victims of Crime Fund	Solicitor General
Wild Rose Foundation, The	Community Development

Entities not included in the consolidated government reporting entity

Fund or Agency	Ministry Annual Report
Alberta Cancer Board	Health and Wellness
Alberta Foundation for Health Research	Innovation and Science
Alberta Heritage Foundation for Medical Research	Innovation and Science
Alberta Heritage Foundation for Science and Engineering Research	Innovation and Science
Alberta Mental Health Board	Health and Wellness
Alberta Teachers' Retirement Fund Board	Learning
Improvement Districts' Trust Account	Municipal Affairs
Local Authorities Pension Plan	Finance
Long-Term Disability Income Continuance Plan – Bargaining Unit	Human Resources and Employment
Long-Term Disability Income Continuance Plan – Management, Opted Out and Excluded	Human Resources and Employment
Management Employees Pension Plan	Finance
Provincial Judges and Masters in Chambers Pension Plan	Finance
Public Post Secondary Institutions	Learning
Public Service Management (Closed Membership) Pension Plan	Finance
Public Service Pension Plan	Finance
Regional Health Authorities	Health and Wellness
School Boards	Learning
Special Areas Trust Account, The	Municipal Affairs
Special Forces Pension Plan	Finance
Supplementary Retirement Plan for Provincial Judges and Masters in Chambers	Finance
Supplementary Retirement Plan for Public Service Managers	Finance
Workers' Compensation Board	Human Resources and Employment

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1 Ministry includes only the department so separate department financial statements are not necessary

2 Dissolved July 23, 2002

Endnotes

[1] The Alberta Foundation for Health Research (the Foundation) is a subsidiary of the Alberta Heritage Foundation for Medical Research (AHFMR). The Foundation is a registered charity whose activities support medical and health research. The activities of the Foundation are administered by AHFMR staff as the Foundation does not have staff of its own. The contact number for the Alberta Foundation for Health Research is (780) 426-3473.

[2] Information and Communications Technology (ICT) Sector Alberta Economic Development definition (NAICS Codes): 3341 Computer & Peripheral Equipment Manufacturing; 3342 Communications Equipment Manufacturing; 3343 Audio & Video Manufacturing; 3344 Semiconductor & Other Electronic Component Manufacturing; 3345 Navigational, Medical & Control Instruments Manufacturing; 5112 Software Publishers; 5132 Pay TV, Specialty TV & Program Distribution; 5133 Telecommunications; 5141 Information Services; 5142 Data Processing Services; 5415 Computer Systems Design & Related Services; 8112 Electronic & Precision Equipment Repair and Maintenance.

[3] A key performance measure reflects an outcome that is directly affected by our activities. An indicator reflects an outcome that is not directly affected by our activities. If it becomes evident that our activities are having a more direct impact, an indicator could be upgraded to a key performance measure.

[4] Sponsored Research is funding for research that does not come from the Universities' operating budgets (i.e. it is attracted from external sources based on the quality of the proposed research). It includes Federal, Provincial, and Industry funds to support research paid either in the form of a grant or by means of a contract from a source external to the institution. The ability of a university to attract sponsored research dollars is an indication of the strength of its research program. This Key Performance Measure was included in the Ministry's previous 2001 – 02 Annual Report as an indicator as per a Ministry Management Committee decision in the development of the 2001 – 04 business plan in the Fall of 2000. Alberta Innovation and Science collects information from Alberta universities about their sponsored research funding from all sources using standard guidelines and templates in order to clarify and standardize reporting practices. Sponsored research includes funds to support research paid either in the form of a grant or by means of a contract from a source external to the institution.

[5] Any material which is converted to another form or product.

[6] As per the Alberta Energy Research Institute's Sustainable Energy Strategy, 2003.

[7] Alberta Energy Research Institute.

[8] A thick, sticky form of crude oil, sometimes called "extra-heavy oil." At room temperature, bitumen is like cold molasses. It must be heated or diluted before it will flow into a well or through a pipeline.

[9] 2001 – 02 baseline revised since published in the 2002 – 05 business plan as support for one of the research projects was not new in that year, but a continuation from the previous year.

[10] These results were derived by counting the number of fuel cell projects funded by AERI and then comparing those to the projects that were funded in previous years. For example, if a project was a continuation of an earlier project, it was not counted again in 2002 – 03.

[11] (In Organic Chemistry) Aromatics refers to the most important group of unsaturated cyclic hydrocarbons which occur in petroleum and coal tar. Originally applied to a small class of pleasant-smelling chemicals derived from vegetables, the term "aromatics" now encompasses a wide diversity of compounds with no connection to the sense of smell. The aromatic hydrocarbons include benzene, toluene, anthracene, and naphthalene.

[12] A thick, sticky form of crude oil, sometimes called "extra-heavy oil." At room temperature, bitumen is like cold molasses. It must be heated or diluted before it will flow into a well or through a pipeline.

[13] Alberta Energy and Utilities Board <http://www.eub.gov.ab.ca/bbs/products/STs/st98-2003.pdf>

[14] Alberta Energy Research Institute.

[15] Achieved via the Industry Chair program that was introduced by iCORE in 2002 – 03.

[16] In 2000 – 01, there was one co-award given, which resulted in two Professorships.

[17] In 2002 – 03, there was an Industry Chair award given to an existing Research Chair, resulting in one person holding two Chairs.

[18] Umbrella agreements would include formalized agreements such as a Memorandum of Understanding (MOU) or a Letter of Intent.

[19] Results are based on the Labour Force Survey in which 5372 households are surveyed in Alberta. The margin of error with provincial annual averages is consistent with a coefficient of variation (CV) of between 10% and 15%. Detailed information about the methodology and data accuracy for the Labour Force Survey can be obtained at < http://www.statcan.ca/english/freepub/71-543-GIE/71-543-GIE03001.pdf>

[20] The number of 4700 was derived from the number of stakeholders eligible for connection to Alberta SuperNet. As construction continues, communication with these stakeholders will continue to confirm connection to SuperNet. The number of 4700 stakeholders in approximately 3100 buildings will fluctuate as the build continues.

[21] GOA Buildings is now referred to as GOA 'Stakeholders' in order to be consistent with the measurement of schools, hospitals, and libraries. Note that there may be more than one stakeholder in each GOA Building.

[22] These results are based on a survey question posed to a sample of 627 Albertans who responded that they did not have high-speed Internet access at home. The survey was conducted via telephone in August of 2002. The margin of error for these results is no greater than +/- 3.2% with a 95% level of confidence. A margin of error no greater than +/- 5 % is considered necessary for making inferences about an entire population.

[23] To obtain the 2002 – 03 actual, the number of services available through the Service Alberta Web site was counted. Examples of online programs and information available: vehicle registration renewal; high school transcripts; province-wide virtual library catalogue; student funding inquiry; Government properties for sale; current air quality; flood risk map information system; and learning resources center.

[24] The 2001 – 02 Baseline is based on a total of 24,727 desktops. The 2002 – 03 Actual is based on 24,778 desktops. The number of desktops increased due to growth in the Alberta public service.

[25] Alberta Innovation and Science's definition of the life sciences sector based on the Standard Occupational Classification System by Statistics Canada: C02 — Life Sciences Professionals; C12 — Technical Occupations in Life Sciences; D01 — Physicians, Dentists and Veterinarians; D02 — Optometrists, Chiropractors and other health diagnosing and treating professionals; D03 — Pharmacists, dieticians, nutritionists; D04 — therapy and assessment professionals; D11 — nurse supervisors and registered nurses; D21 — medical technologists and technicians (excluding dental health); D22 — technical occupations in dental health; and D23 — other technical occupations in health care (except dental health) like opticians or midwives.